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# IMPORTING

With Special Attention to Customs  
Requirements

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By

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*Customs Broker and Attorney, of the Firm of M. J. Corbett and  
Company*

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Being the Eleventh  
Unit of a [Course  
in Foreign Trade ed. by  
Edward Ewing Pratt]

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# Course in Foreign Trade

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*The text of the Course is issued in twelve units as follows:*

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## Our Incoming Trade

**I**T is safe to say that the imports of no nation pass under a stricter or more intelligent supervision than do those of the United States. As the world's chief exponent of a customs tariff system, the nation has developed a customs organization whose daily examination and appraisal of our incoming trade bear directly and vitally upon the commercial welfare of its citizens.

Representing the most normal means by which a foreign nation can wipe out its debt to us, the shiploads of goods reaching our shores are the great balancing entry in our international book-keeping. World trade is basically an exchange of goods for goods. To attain a place of supremacy in world commerce the judicious purchase and importation of goods from abroad should receive as full attention as should the exploitation of the same markets for the sale of our exported merchandise.



## I

### The Part of Import Trade in Our Foreign Business

**I**N the year 1915, while our exporters were shipping out of the country goods to the value of \$2,768,589,340, an equally industrious group of our overseas traders were bringing in \$1,674,169,740 worth of foreign products. This enormous import trade we are apt to disregard while watching the export figures grow from year to year. It is true, however, that our imports have also shown a steady increase as our population and industry have enlarged, and they now form nearly 40 per cent. of our total foreign trade.

Too frequently, in our purchases abroad, we have left it to the initiative of the foreign seller to seek his own markets. However, many concerns now realize that care in the buying of goods abroad may result in profits as appreciable as are realized from care in the selling of the finished articles. In turning our attention to the import trade, we shall consider the activities, not only of the professional importers, who have found a profitable field in the procuring of foreign

goods for home consumption, but also the activities of those manufacturers who have recognized the value of seeking their supplies rather than letting their supplies seek them.

The importance of import trade to the country is not measured alone by the profits made in the actual resale of foreign products.

*Importance of  
Import Trade*

The \$1,500,000,000 worth of goods that have been coming annually into the United States for the last ten years have brought with them huge additional profits in the form of railroad earnings on traffic from the receiving ports to the inland buyers, the yearly balances of the harbor transportation and terminal companies, and the profits of the exchange dealers through whom the financing of the foreign purchases has been negotiated. Seven thousand employees are kept constantly at work administering tariff laws and collecting the duties that are imposed through the Customs Department of the United States—duties averaging \$300,000,000 annually, in whose collection \$10,000,000 is expended.

As a source of income to the federal government, as a source of supply for the thousands of industries that rely upon foreign products for part of their manufacturing processes, as a means of livelihood for the large body of importers, customs brokers,

harbor and terminal organizations and the handlers of incoming traffic, as well as for the men who take care of the international financial operations that these imports entail, this half of our foreign commerce deserves thorough study and careful attention.

The importer divides the articles he handles into two broad classes—staples and specialties. The staples he further divides into: first, crude products such as zinc, lead, tin, dyes, flax and rubber—

*Two Classes  
of Imports*

products which cannot go directly to the ultimate consumer but are used for further manufacture; and second, semi-staples, such as fabrics of linen, cotton, the plainer silks and similar articles. The specialties include hundreds of novelties of all kinds, the fancy types of silks, fancy wool and cotton fabrics, laces, all forms of wearing apparel, gowns, hats and various other things pertaining to fashion, as well as all works of art.

Due to the general nature of the goods forming each class, the method of purchasing each differs. Let us consider first the method of buying staples. Style and demand affect them little, if at all. The merchant can lay in a supply and purchase in advance without fear of suffering a loss due to changing conditions. For these reasons the orders for staples usually run into large quantities,

a single transaction sometimes running into hundreds of thousands of dollars. Purchases and contracts are often concluded long in advance of the time the goods are wanted. Lead, zinc, raw silk, tea, coffee, rubber, hemp and wool are often contracted for in cargo quantities, according to well-recognized grades or by special trade names that denote established qualities. Frequently, sales are consummated without an actual examination of either merchandise or samples.

The purchase of specialized articles is subject to just the reverse conditions. Style, fashion and design play an important rôle in establishing their value. Hence, actual inspection and personal selection is a requisite to the proper buying of specialties in foreign markets. As a result, competition in the purchase and prompt shipment of the more highly specialized articles is very keen. Selections should be made in the respective markets—once the goods are offered—without delay. This desire to effect a choice of goods as early as possible leads the buyer to deal direct with the producer, and means that frequently the visits made are to the factory at the center of production, where he is assured of a wider range and can expect earlier delivery. To determine a buying policy with regard to novelties the fashion



Photo by Edwin Levick

## DISCHARGING A CARGO OF SOUTH AMERICAN COFFEE AT NEW YORK

The sacks are being carted into an adjacent warehouse where they will be stored until wanted. Goods for further steamer or rail transportation would be discharged over ship's side to lighters.



center of the exporting country should be visited. This is particularly true of Paris, London and Berlin.

The staples, however, are our largest revenue producers, and, due to the regularity and uniformity of the importations, their methods have become more or less standardized.

It will be instructive to examine the methods applied to the importation of some of our important staples. The ones chosen are wool, sugar, chemicals, hides, fibers, metals and rubber. These commodities are not infrequently imported by shipload, and the ship consigned direct to the importer of the merchandise. In this event, arrangements are frequently made for the discharge of the cargo at piers adjacent to the factory or warehouse of the owners.

*Methods Applied  
to Importation  
of Staples*

The textile industries of the United States are dependent to a large extent upon the foreign wool supply. This fact is reflected in our import statistics.

*Wool Imports*

Annually there reach our shores 300,000,000 pounds of wool.

It is interesting to note where this large supply of wool comes from. Previous to the war probably the most important wool market of the world was London, where Aus-

tralian and New Zealand wool is sold at the "London Wool Sales." However, of the 222,000,000 pounds of class 1 wool for clothing imported in 1915, only some 39,000,000 pounds were imported from England, as compared with 65,000,000 pounds from Argentina and 66,000,000 pounds from Australia. This is not an indication that London has lost its place as the great wool market, but that there is a tendency toward direct shipment between the producing country and the United States, even though sales are consummated in London.

Raw wool is largely imported in the fleece, as it comes from the sheep. It is sorted, scoured and graded for quality and then combed and made into yarn. Considerable quantities are imported in the shape of wool tops, ready for spinning into wool yarn. Smaller quantities come on the skin of the sheep or goat.

Raw wools are bought in the Australian market and at the London auction sales for cash. In our own markets they are sold by jobbers or agents on terms mutually agreed upon between the purchaser and the seller, customarily on terms of 30 to 60 days, with special discounts for cash. A commission of  $\frac{1}{2}$  of 1 per cent. is often paid agents when wool is purchased through them in our mar-

kets. In the wool-producing country the sheep raiser is paid cash for the wool.

Of our cane sugar imports, practically the total amount comes from Cuba. In 1915, out of an importation of 5,400,000,000 pounds, the quantity from Cuba was nearly 4,800,000,000. Other countries that send us sugar are the Philippine Islands, the Dutch East Indies, Peru, Santo Domingo, Mexico and Guatemala. Beet sugar is also imported principally from Germany, Austria-Hungary and France.

*Sugar Imports  
and Methods  
of Financing*

The fact, however, that practically all of our imported sugar comes from Cuba, makes it of interest to study the methods that are in force in this trade. Many of the sugar plantations in Cuba are controlled by American capital. The larger number, however, are owned by native planters, but are financed by American concerns.

In the purchase and shipment of sugar the following procedure is frequently employed. An American commission house will advance money against the expected crop. Under this arrangement, the planter advises the American firm of the probable quantity of sugar that his plantation will produce that year. By agreement, he is then allowed a certain advance upon each of a certain maxi-

imum quantity of bags of sugar. It is frequently \$1 in advance of the shipment for each bag, upon which sum the planter pays 6 per cent. interest. When a planter expects a crop of 200,000 bags, the commission house will probably offer to pay him in advance \$1 a bag on say 75,000 bags. In this way the planter is in funds to finance the harvesting, milling and shipping of his crop.

Knowing the extent of the crop, and having made these arrangements to finance it, the commission merchant in the United States now proceeds to get a buyer. The buyers are of two general classes: (1) refiners, (2) speculators. The sales to these buyers are usually consummated through a broker, who receives a brokerage fee of about  $\frac{1}{4}$  of 1 per cent. Having obtained an offer from the American buyer, the commission merchant cables the planter and the planter in turn communicates his acceptance or refusal of the offer. If accepted, the commission house notifies the planter to ship the goods, drawing, either on the commission house or on the buyer, at six days' sight for from 85 to 90 per cent. of the value of the shipment, less the advances made. The commission merchant's profit on this transaction averages approximately  $\frac{1}{2}$  of 1 to  $1\frac{1}{2}$  per cent.

Because of the likelihood of claims for

losses due to leakage and other causes, payment is first made on a basis of 95 per cent. of the contract price, the balance due to be adjusted after delivery and examination.

Among our most important imports are the various chemicals, including commercial drugs, dyes and pharmaceutical chemicals. Germany was a very important source of supply prior to the out-

*Imports of  
Chemicals*

break of the European War of 1914. The analine dyes and pharmaceutical chemicals were chiefly imported from that country and were handled in American markets through branches or allied representatives of German firms. Without that market we are dependent upon an infant but growing industry for our analine dyes, but are more helpless as regards certain of the medicinal drugs.

Another important item of import under this heading is that of dye-woods. Chief among these are logwood, fustic, orchil and cudbear, together with extracts made from these woods. They are imported chiefly from South America and the West Indies, and are bought either through brokers in America or by direct purchase from the foreign markets.

The case of Australian wool reaching us by way of London is paralleled by many interesting instances in the chemical trade. For example, in 1915 we received from the Neth-

erlands nearly 4,000,000 pounds of cinchona bark, from which quinine is extracted. Practically all of this was produced, not in the Netherlands but in the Dutch East Indies, and was sent to us by way of the Dutch markets. In 1913, also, nearly 2,000,000 ounces of quinine came to us from Germany, where the industry of extracting this product from bark brought large profits to German concerns. The monopoly held by some countries in the supply of chemicals for our import trade is one of its outstanding characteristics. For instance, in supplying extracts for tanning, Argentina supplied us 118,000,000 of the 120,000,000 pounds of quebracho which we imported in 1915. In this South American trade, American importers occupy a position of much greater importance than they do in the closely held chemical trade with Central Europe.

The annual importations of hides run into very large figures. During the year 1915 the United States imported 538,217,733 pounds of hides, valued at \$104,177,106.

*Hides a Big  
Item in Imports*

The hides are of many different kinds and come from nearly every country in the world. Buffalo hides are imported in great quantities from British India. Calf hides are brought in from various European countries, but principally from

Russia, though in 1915 the main importations were from Argentina. Canada also supplies great quantities of this kind of hides. Cattle hides come principally from South American countries, the chief exporters being Argentina, Uruguay, Brazil and Colombia. France and Belgium are also important sources of supply. British India and China are the great sources of our importations of goat skins, while sheep skins come to us principally from Russia and Great Britain.

Hides are imported both as "dry" hides and as "pickled" or "wet-salted" hides. The names do not signify any difference in quality, but simply indicate the methods used by different producers for protecting the hides from climatic effects in shipping. The season of the year also makes a difference in the condition of the hide and therefore in its value.

As in the case of a large number of other imported articles, so also in the importation of hides, some foreign firms maintain their own representatives in the United States. The Central and South American shippers not infrequently make consignments to their own agents in the United States, who are charged with the task of either making sales here or from here to the European markets.

Hides, however, are also sold in foreign markets outright for export, and in that case

it is customary for the foreign shippers to draw on the purchaser here for approximately 75 per cent. of the value, the remaining 25 per cent. being later adjusted upon open account. Depending upon the arrangements made between buyer and seller, these drafts are for 10, 30 and 60 days' sight. So far as the sale in our own market is concerned, hides are usually sold to or through brokers, and generally upon a cash basis.

When a consignment of hides arrives, it is sometimes customary to put them into warehouse, but more frequently, when shipments are made to a broker or agent, sales are made directly from the dock of the steamer which carries the goods. In this way, extra expense and handling are obviated. Frequently, also, where relations between buyer and seller are of long standing, sales are concluded previous to arrival, subject, however, to final inspection at port of destination.

The United States government requires that importers present certificates of disinfection in order that hides may be permitted to remain in the United States. The importation of the hides of neat cattle into the United States is also prohibited, except under such regulations as may be issued by the Secretary of Agriculture. These regulations are published from time to time.

Another important item on our import list for 1915 was that of the various fibers. The total importation of unmanufactured fibers was valued at \$40,420,017. Of this amount, the two largest importations were of sisal grass and of *Hemp and Other Fibers* manila hemp—the former being more than \$20,000,000 and the latter more than \$9,000,000 in value. Though commonly called manila hemp, this variety is not in fact the botanical hemp, which is a soft fiber. Manila hemp and sisal are referred to as being of the hard fiber class.

These hard fibers are used principally in the manufacture of carpet warp, ship's heaving lines, cordage and binder twine. The Philippines are the principal source of the manila hemp, and Mexico supplies most of our sisal hemp. The cheaper grades, together with jute, are largely used in the manufacture of burlaps, sugar sacks and covering for cotton bales. Both hemp and jute fiber are imported in large lots. In our Southern markets contracts are frequently placed by cable or correspondence on the basis of the samples submitted through brokers or others.

Pure hemp, as distinguished from manila and sisal fibers, is produced principally in Russia. Imports into America, however, come principally from Italy. Russia and

Belgium represent the great source of supply of the world's flax. Northern Russia, especially where labor is cheap, is well suited to flax growing. Ireland probably consumes more flax than any one other country. The flax fiber imported into the United States is chiefly of the variety suitable for the manufacture of sewing thread, shoe thread, twines and towelling. The large variety of lines in the finished flax (linen) product, which probably prevents centralization and growth, makes uninviting to American capital the establishment in this country of the linen fabric industry. We are, however, now producing a fairly extended line of linen, and particularly linen and cotton, towelling.

In this connection it is also well to note that our chief imports of fabrics woven of flax fiber are from Ireland, Scotland and Belgium, in the order named. These linens include such articles as table and bed linens, towels, as well as cloth for making garments. The trade is handled in all the different ways applicable to other imports, such as by direct purchase abroad, by consignment to branch houses here, to be sold for shippers' account, or by purchase from foreign manufacturers, who make periodical selling trips to American markets.

Crest linens are frequently imported. These are specially marked or designed linens made to order for large clubs, restaurants and hotels and usually bearing a distinctive mark to harmonize with the rest of the furnishings. In such cases the purchaser submits his design either direct or through the American agent. Such orders can seldom be executed short of a year from the date of order.

Large quantities of raw silk are imported annually into the United States. Italy and Japan are our principal sources of this article. That from the former country permits of a wider use, as Italy produces all qualities of silk fiber, while the Japanese silk yarn is not produced in so many different grades. From the district of Canton, China, we get a silk fiber named after the district. "Tussah" is another grade shipped from China.

The raw silk market fluctuates and the commodity is largely sold on contract for future delivery and upon standard grades. An important factor in delivery is the weight of the raw silk. For this reason payment and adjustment are usually made upon the certificate of the "conditioning house" to which delivery is made for buyer's account. This practise is an excellent one and would, if followed with regard to other fibers, do much

to lessen disputes and avoid misunderstandings.

*Crude Ore  
and Metals*

The larger part of the crude ore and metals in crude state imported into the United States comes from Mexico, Canada and Cuba. For instance, in 1915 we imported from Canada \$36,607,235 worth of nickel out of a total importation of \$37,995,019 worth of nickel. Of zinc ore, our principal importations were from Mexico and Australia. Our copper ore in 1915 came principally from Cuba, Canada, Chile and Mexico. Lead and zinc ores are usually entered for bonded smelters, only part of the constituent material being consumed here. These smelters are established at different places in the country, some of the largest being in the southwest and near the Mexican border. Frequently such shipments are consigned to American interests which are identified with Mexican mining properties. Other ores come to us also by direct purchase contracts. More metals and crude ores for smelting are shipped to St. Louis and other points adjacent to mining districts than to our eastern ports.

The last decade and a half has witnessed an unprecedented growth in the rubber industries, especially in connection with motor-car manufacturing. As a result, the impor-

tation of crude rubber has shown steady increase from 49,377,138 pounds in the fiscal year 1900 to 172,068,428 pounds in the fiscal year 1915. The importation for the calendar year 1914, 61,240 tons, was 50.8 per cent. of the world's total production.

*Imports of  
Rubber*

There are two principal kinds of crude rubber: "plantation" and "Brazilian." The plantation rubber, sometimes called "cultivated rubber," is raised from a transplanted Brazilian plant and is largely a product of the East Indies and the Malay Peninsula. The Brazilian product grows wild, and in the market is generally termed "Para" rubber. Of the total production, plantation rubber is first, with 59.3 per cent. and a total tonnage of 71,380, while Para rubber constitutes 40.7 per cent. The crops of the plantation rubber are ascertainable about a year in advance of gathering; this is taken into consideration when prices are fixed in purchases. The Para rubber crop is known only about three months in advance of gathering.

Both of these rubbers are very largely controlled by English capital. The world's market of this commodity, therefore, centers in London. Of the total of 172,068,428 pounds of raw rubber imported in 1914-1915, no less

than 75,168,236 pounds were shipped from the United Kingdom, a further 27,898,683 pounds arrived direct from the East Indies, and Brazil sent 48,753,670 pounds—this despite the fact that Great Britain herself produces comparatively no part of the rubber production of the world on her own soil. It is true that some of the bigger American consumers maintain direct representatives in the Far East and Brazil, but even these concerns obtain a large part of their requirements through the London sales.

New York is the principal selling market in the United States, and the prices there quoted are subject to very heavy fluctuations. The sellers in this market supply the demands of many of the smaller manufacturers, who have not the financial resources nor the volume of consumption sufficient to justify direct representation either in the rubber-growing districts or in London. The New York sellers usually arrange to secure their London supplies on letter of credit through the London banks. For the Brazilian product, arrangements are made to ship direct to the American port against letter of credit usually through the South American banks.

## II

### Purchasing Goods for Import

**A**S in exporting, so in importing, transactions are handled both directly and indirectly. For our consideration, however, we shall group the various importers, not on this basis, but rather in the following four classes which stand out prominently in our present trade: *Four Classes of Importers*

1. The importing wholesaler or jobber.
2. The importing retailer.
3. The importing manufacturer.
4. The branch house or agent of the foreign manufacturer.

The importing wholesaler is usually an established import house, devoting the greater part, if not all, of its efforts to importing articles for remarketing to the wholesale domestic trade. It frequently handles many articles, but usually articles of related lines. For instance, it may import silks, dress trimmings and laces, all of which are bought by the same class of trade. In turn it will resell these to jobbers, manufacturers, shops or department stores that cater to the related retail trade. Just as the export salesman finds it not only inconvenient but uneconomical to

handle widely divergent lines, so also the importer has discovered that the same principle obtains in his business.

The importing retailers are generally the large department stores. They import extensively and maintain a considerable buying staff. A shipment to such a firm is likely to be more varied in selection than a shipment to a jobber. Keen competition, not only as to price, but also as to assortment in fashion, makes it necessary that large retailers—whether they specialize in one line, as do the specialty women's wearing apparel shops, or in numerous lines, as do the department stores—engage in direct importing.

Third, there is the manufacturer who finds it to his advantage to import articles direct, for use in his own industry. These articles include not only such crude materials as dyes, commercial and pharmaceutical chemicals, raw silks, wool and countless other raw products, but also many articles which are allied with the specialty or novelty business. For instance, manufacturers of wearing apparel of all kinds, especially of women's wear, make frequent trips abroad and purchase materials, some of them partially manufactured, which are needed in their business and which they think that they can obtain more advantageously by purchasing abroad.

The manufacturer also finds it to his advantage to visit foreign markets to acquaint himself with needs in fashion centers and generally to keep informed of conditions.

The fourth class is comprised of the branch houses or agencies of foreign manufacturers or shippers. Particularly in the textile and the drug and chemical trades a large part of the business is handled by these importers. Considerable merchandise is kept in stock in this country by such branches or agencies; they are in a position to do this because of the direct relations existing between them and the foreign manufacturer. They carry extensive lines from which sales and immediate deliveries can be made, thus placing themselves, especially in certain textile lines, in an enviable position, without nearly so large an investment as they would have to make if they imported by means of outright purchases from the factory.

The four classes of importers that we have enumerated obtain their goods through various channels. In the main, however, the methods that stand out prominently are:

*Five Importing  
Methods*

1. Purchase through branch houses or resident representatives in foreign countries.
2. Purchase through buyers making periodical trips abroad.

3. Purchase in this country from American representatives of foreign concerns, either branches, agencies or traveling salesmen.

4. Purchase through foreign commissionaires.

5. Purchase through correspondence.

The first three methods are the most commonly employed, the other two being frequently merely supplementary to them.

The larger importers, more usually the importing wholesalers and importing retailers, in many cases maintain complete foreign

*Dealing Through  
Foreign Representatives*

organizations both at home and abroad. Foreign resident buyers are located at the principal markets, and the purchasing abroad is accomplished by them, assisted, when the occasion demands, by the special staff from the United States.

The great advantages to be gained through maintenance of a foreign office are early selection and economy both in buying and in shipping. These advantages are more especially to be prized in the purchase and selection of specialties, dependent upon fashions. Of course, the business must be of sufficient volume to warrant the increased overhead expense which such an organization entails. Many of our larger department stores maintain permanent headquarters in Paris, Ber-

lin, London and Yokohama. In charge of each headquarters office is a competent "merchandise man," who advises his firm of the general trend of the markets — fashions, prices, manufacturing conditions and other important details. He also suggests from time to time the most advantageous periods for the various buyers to make the trip abroad. He plans the buyer's trip so that the visiting purchaser can see all that the foreign market affords in his (or her, for there are many successful women buyers) particular line. For the ready adjustment of claims he is frequently of great service.

During the time that the buyer is not in the foreign market the resident manager of the foreign office places the reorders, superintends the shipments, payments, and attends to all other details.

Buyers for American concerns form a large percentage of the passenger traffic on the ocean liners reaching and leaving our ports.

They are men not only acquainted with the details of foreign buying, but they are also specialists in their own

*Purchasing Through  
Buyers Sent  
Abroad*

lines. In fact, this thorough knowledge of the line he is to buy is the prime requisite of the foreign buyer. He must be able to detect flaws and counterfeits. He must be a sure

judge of quality and have a thorough knowledge of world prices in the lines in which he is purchasing. If he is not buying exclusively staple lines, he bears also the responsibility of deciding whether or not a new line will meet with success in the American market. It is evident that the purchaser of foreign-made goods must be a man of exceptional caliber, especially when it is considered that he must be prepared to meet the competitive bidding of foreign buyers in all the big markets of the world. The successful buyer of novelties will reflect in his purchases his own individuality. Thus, especially in women's wearing apparel and allied lines, certain shops will gain a reputation for special styles reflecting the taste and training of the buyer.

His knowledge of how and where the articles he is buying are sold must be as thorough as possible. In some cases the producing center will not be the most advantageous purchasing market. This is especially true of the crude feather and fur trade. For instance, London is a principal market, though the feathers may come from South Africa and the furs from North Sea countries.

An interesting though difficult method of purchase is employed for articles made by "house workers." The term is used in connection with many lines of goods, made not in

big factories but in small lots by workers scattered over a large area. Goods manufactured in this way are seldom purchased direct from the producer by the American buyer. To make a wholesale purchase in this fashion would require too much time and prove expensive in the long run. Factors or gatherers travel through the country by cart or otherwise, buying up the toys in Germany; laces in France, Austria, Italy and Syria; Indian baskets in Canada; silks, toys, lacquer and other small wares in Japan. These factors then add a commission or profit and sell to the American purchaser or his agents. Sometimes these factors supply the workers with the thread or wood or other raw material with which to make the goods. If the American purchaser can afford to maintain his own organization abroad, thus supplanting the factor or gatherer, the latter's profit can be eliminated.

The third method—through branch houses or American representatives of foreign concerns—deserves special attention to avoid confusion in our interpretation of the word “importer.” The branch house or representative is the real importer of the goods, and the articles imported reach the consumer in about the same manner as do

*Buying Through  
Representatives of  
Foreign Firms*

goods of domestic manufacture. Frequently, however, the retailer, jobber or manufacturer who buys of the foreign manufacturer's branch house or agent, especially on so-called "import orders," will be considered the importer, since the importation is made for his account.

This method of purchase should be classed with direct importing when the foreign maker's traveling salesman comes to the United States, usually with samples, and sells to the American buyer, who then imports the goods for his own account; or when the American purchaser sends his order through the branch house to the foreign manufacturer but receives the goods direct, clearing them and paying the duty.

In this connection it may be asked: "How does the branch house get its goods?" It is customary for the branch manager to make frequent trips to the foreign market, visiting the factory for the purpose of advising upon the class and character of goods to be manufactured for the American market, selecting designs and in general determining the policy of the branch. The goods are sent to the branch and disposed of as the demand requires, payment being usually made to the branch house which makes adjustments with the home office.

Where the business does not warrant the maintenance of a branch house and representation in our markets is nevertheless desired by the foreign producer, he usually appoints a commission house as his sales agent. Such an organization places in charge of the department a man familiar with the merchandise, who obtains orders and sends them abroad to be filled if the goods are not in stock here. Deliveries are usually made through the commission house or agent and sales are more frequently made in American currency, goods delivered in our markets duties and all charges paid. This transaction is about the same as the one above described referring to branch house transactions. The account is payable to an American banker or factor, who receives the money for the shipper's account, rendering what is known as an "account sale." This shows the amount of money received, and has charged against it the outlay, such as duty, freight, cartage, clearance charges, selling agent's commission, the banker's commission, interest charge, etc. The balance of the account is then remitted to the shipper, although a payment may even be made to him in advance against the order or the merchandise when received.

Finally, there is the army of foreign salesmen that annually visit the American mar-

ket. They are usually men of considerable experience, whose methods, while resembling those of the American export salesman, show the benefit of the more extended experience that the average foreign exporter has had in foreign trade. They close orders in the regular manner, on any one of the many possible arrangements that have been cited in connection with American export trade.

Importers who do not maintain individual organizations abroad frequently purchase through a foreign commissionaire. Even in this case, however, the buyer makes his pe-

*The Assistance of  
the Commissionaire*

riodical trips abroad to make selections. The commissionaire knows the manufacturers and can guide the visiting buyer, thus rendering the same service as would the resident manager of a foreign branch house. The shipments are also made through the office of the commissionaire, who examines the goods carefully, checks them with the original order, prepares the invoices, both customs and commercial, pays the manufacturer and ships the goods. For this service the commissionaire charges a commission of from 3 to 7 per cent. The buyer, after his return to this country, places his reorders through the commissionaire, and generally employs him

for keeping in touch with the foreign market.

The commissionaire frequently performs a service similar to that of the factor in the house workers' industry, gathering together from widely separated points articles which the buyer is seeking. His operations, however, are usually upon a large scale, and are confined to the old world's selling markets, such as Paris, London, Berlin, Vienna, though also applying to purchases in Japan.

Direct purchase by cable or mail is seldom employed for other than staples or semi-staples, except for duplicate orders. Even in the case of staples, samples and quotations are frequently submitted before purchase is made. Re-

*Purchase by  
Correspondence*

orders which result from the buyer's visit abroad are usually handled by cable or letter, and it is to be said, out of justice to some foreign commissionaires, that their experience has so equipped them that they are intrusted by letter with the selection and buying of needed articles for the American purchaser.

We have seen how the successful exporter does not devote all of his attention to any one particular method of selling. So also the importer finds it to his advantage to take into consideration all the different methods of pur-

chase. For instance, there are many imported articles which, for certain purposes, may be bought more advantageously in our own markets than abroad. These may be obtained at our large ports from manufacturer's agents, branch houses of foreign manufacturers, or large importing houses specializing in certain articles. Because of the large quantities which they buy, these wholesalers can sell in our markets as cheaply and more advantageously than a smaller buyer could purchase abroad. In fact, large department stores and other big merchandisers will be likely to purchase in New York foreign laces, velvets, silk piece goods, linens and other semi-staples. They find it economical to place such orders here rather than through their own foreign offices or through their own buyers traveling abroad. There is a marked tendency to let the wholesale importer or the foreigner's branch house take the risk which carrying goods in stock entails, thus relieving the retailer of trouble and expense.

Specially advertised foreign articles are largely controlled in our markets by branch houses or agents. Such organizations can, by larger shipments, effect a material saving in freight and other handling charges, thus en-

abling them to sell as cheaply and with less inconvenience to the individual purchaser than if the latter made his selection abroad. This seems to be more especially true in the specialty and semi-staple class such as automobiles, linens, silk fabrics and similar lines.

### III

#### Special Factors in Importing

**T**HE import house must have a thorough and systematic organization. In particular the following divisions require careful planning in their organization and conduct—the buying department, the customs department, the finance and shipping department and the selling department. The work of the buying and selling departments depends, it is evident, upon the nature of the product. The shipping and finance departments will be handling the same kind of documents that are handled in export trade. The customs department, however, will have a new task on its hands, which is to be explained in a subsequent chapter of this Unit.

There are a number of special considerations which have a direct bearing upon import trade. One of the most important is the question of calculating costs.

*Calculating Costs* What points must an importer bear in mind when figuring up his landed cost for goods which he is to bring from a foreign country? These items include not only the first cost and duty, but all expenses

in connection with the landing of the goods. There is the foreign inland freight, the ocean freight, marine insurance, war risk insurance and special war export duties if levied, insurance in the United States while the goods are being carried in warehouse awaiting sale, loss of interest and likely depreciation in value of unsalable goods.

If the importer is the agent or branch house of a foreign manufacturer, it is possible that the principal may have forwarded instructions as to the minimum selling price. However, merchants who import goods for their own account frequently make a cost calculation or basis for each class of goods they handle. For example, for goods from France, while the original value of the franc is about 20 cents, the landed cost of a franc's worth of goods will be increased by various items. Among these may be a buyer's commission of 5 per cent. (or 1 cent) for foreign agents who assist in the transaction. Furthermore, freight, insurance and shipping expenses are reduced to a percentage basis, the amount of this depending upon the nature of the article imported and the quantity and size of the shipment. On manufactured articles from European ports 5 per cent. is considered a fair basis, thus making an additional cent. The duty is also calculated

on the foreign cost, and in the case of merchandise dutiable at 60 per cent. the cost is increased a further 60 per cent., or 12 cents. Thus we have added 14 cents to the original cost of one franc's worth of the goods. The merchant in America, therefore, can figure that the cost price in the United States of each one franc of the cost abroad will be 34 cents. This example, of course, is merely an illustration of the method. It will vary according to the different factors that affect it, especially the rate of customs duty, which varies with almost every commodity. If the discount granted by the foreign merchant is of material consequence, proper allowance for this should also be made.

In connection with the calculation of cost it is advisable here to mention the necessity for accuracy. The freight bill should be

*Verify All  
Cost Items*

verified and care taken to see that the charges are in accordance with any existing freight contracts made on behalf of the importer. Customs duty accounts should be scrutinized, and whenever any question arises as to the rate charged, the custom-house broker or attorney should be consulted. Likewise, in the payment of foreign invoices, care must be exercised. All available discounts as arranged between the buyer and the shipper should be deducted. If the

goods are received on open account and remittance is to be made by draft, inquiry should be made among the various banks so as to obtain the most favorable quotations of foreign exchange. The more attentive the importer is to the various charges with which his goods are burdened, the closer he will be able to approximate his selling prices, and thereby gain for himself advantages over his competitors.

In any large import organization maintaining a number of departments it is essential that proper accounts be kept for each department. Not only should the cost of the invoice be charged up to the proper account, but all incidental expenses—such as traveling expenses and foreign office expenses—should be charged in the correct place. For instance, if each of the departments sends its own buyer, that department is charged with the buyer's traveling expenses. If one buyer represents more than one department, the traveling expenses are proportioned between the several departments in whose interest the trip is made. In keeping these accounts an arbitrary rate of exchange is used for converting foreign money to United States currency. This will likely be for the franc 20 cents, for the mark 25 cents, for the pound sterling \$4.90. The difference is charged

against or credited to exchange account at the next accounting.

The American importer should be as specific in the order which he sends to the foreign shipper as the American exporter has a

*Purchasing Orders  
Should Be Specific*

right to expect his foreign customer to be in sending him an order. The export order form shown in a previous unit of the Course can be applied to the trade coming into the country as well as to the trade going out of the country. Care should be taken that specific instructions are given in connection with each of the items shown in that order.

When an "import order" is taken by an importing jobber or branch house in the United States it is usually a specific order to import, for a customer, certain merchandise. As a rule, it is larger than an order for immediate delivery from stock, and is accepted with a smaller percentage of profit, since there is not the risk and expense of carrying the goods on hand after arrival. Such orders are ordinarily taken subject to strike, war or other conditions beyond the seller's control, as well as subject to change in prices made necessary because of increased freight or insurance rates—such as occurred in recent war times—and of changes in customs duties and regulations.

In placing orders by mail or cable, triplicate order sheets are used for greater convenience, and a second copy of the order is forwarded to the foreign seller by a following mail. The third copy is retained in the sender's office for file. Arrangements should be made so that all orders sent to foreign concerns are acknowledged by them promptly upon receipt.

In connection with the instructions that should be contained in the import order form, certain special conditions deserve attention. It should be definitely understood, at the time of purchase, whether or not an extra charge is to be made for casing and packing. To those not accustomed to import trade, the foreign practise of making an extra charge for putting the purchase into shipping condition may seem strange, although it is certain that the cost of packing, if not charged extra, has been taken into consideration in fixing the initial price. In some foreign markets, principally European markets, the packing cases are made of "American shooks"; that is, case lumber, or what is sometimes known as "knocked-down cases." In this way the importer saves the duty which is levied on cases made of foreign timber. In any event, the American importer should

*Extra Charges*

make sure that he has come to a definite agreement with the foreign exporter regarding the cost of casing and packing.

Definite shipping instructions should also be given. In particular, if the goods to be imported are of a perishable nature, it should be specified that they go forward on an express steamer; otherwise on a cargo boat. The freight rates of express steamers are generally 25 to 50 per cent. higher than the regular freight or cargo boat rates. The weight and measurement of the goods also have a very important bearing on the choice of route. Merchandise of greater bulk is generally shipped upon the slower freight steamers, since the carrying charges of the express steamers would be out of proportion to the value of the goods and so would make their landed cost too high.

The adoption of a standardized system of marking import cases will be of great assistance to the American importer. Not only

*Intelligible Marking  
of Packages*

will such marks make identification at the big piers easy, but guided by special marks or numbers to indicate a particular customer, the importer will be able to ship direct from the import steamer to the actual place of delivery, without opening the cases to inspect the goods, except for customs purposes. A

large jobbing house in New York, importing over twenty-five thousand cases annually, is in this way able to ship more than half of that number direct from the pier or custom-house to its customers, thus saving a large sum in handling expenses. Department stores have the shippers mark the name or number of the department for which the goods are intended on the outside of the case.

In addition, the cases, bales or packages must be marked to show the country of origin—such marks, for example, as “England” or “Made in England.” The contents and gross weight of the package should also be indicated, as: “Contents 112 dozen, gross weight 162 pounds.” This is helpful in facilitating prompt determination of shortage in case of suspected robbery.

In the import trade, the American buyer must be sure that any discounts which he expects from the foreign seller have been confirmed by him. Discounts are of two kinds, trade discounts and cash discounts. The trade discounts vary, according to the nature of the commodity and the size of the purchase. In Switzerland and France, for instance, velvets and silks are frequently sold by manufacturers with a trade discount of 20 or 25 per cent. In England, a similar discount also applies to laces. Ger-

*Discounts*

man discounts, as a rule, are smaller. As contrasted with the manufacturer's discount, a jobber in the same country would likely sell with a discount of only 5 per cent. The difference does not necessarily mean added cost, since the manufacturer's gross price may have been correspondingly higher. The usual cash discount is less than 2 per cent. The larger trade discounts, as a rule, apply to specialties. Crude materials, staple manufactured articles and similar imports are more generally sold net or with much smaller trade discounts.

Trade usage regulates the question of discount. Many articles are sold with regard to basic lists. This is not uncommon with earthenware, crockery and hardware. Changes in price are regulated by changes in discounts. When, as happens in war times, the prices increase to the extent that the discount disappears, then a "majoration" is applied and the goods are quoted at the old or basic price plus a fixed percentage.

One frequently hears the expression that the cheapest thing in Europe is credit. It would be unjustifiable, however, to say that the old world traders are inclined to assume extra hazardous risks. When credit standing can be judged as surely as in our domestic markets, it will be found that terms equally

attractive as those prevailing here can be obtained. This is the case especially with regard to manufactured products.

The various methods of financing foreign business, mentioned in the eighth Unit of this Course, apply to import trade. Much of our business with European sellers is conducted on open account. Some- *Financing* times these accounts are paid by the American purchaser by means of a banker's draft drawn to the order of the foreign seller and mailed to him abroad. This, of course, is not a documentary draft, but is an order by the American bank on its foreign representative to pay the seller so much money—the cost of the invoice. Many of the large firms in the United States, however, maintain bank accounts in the cities nearest to which they make their large purchases, or have sufficient funds at their branch offices there and pay their accounts in exactly the same manner that they would for purchases in our own markets.

European shippers also finance a great part of their trade on regular documentary drafts, exactly as they do their trade to other importing countries, though this method is applied but very little to specialties or to semi-staples. The large shipments of crude articles, running into hundreds of thousands

of dollars per shipment, on which the percentage of profit is very small, is a better field for this method of financing.

Commercial letters of credit are in general use in the Near and Far East, and in South American business. This is also true as regards the importation of crude materials from European countries. In submitting his order to the foreign seller, in any country, the American buyer must be especially careful to see that the method by which the sale is to be shipped and financed is clearly specified.

Foreign delivery conditions will frequently require the attention of the American buyer. They should always be specified in the order. In particular, F. O. B. quotations should be carefully watched. Frequently the importer will meet with the expression "F. O. B. Hamburg" or "Havre" or "Liverpool." This does not mean that the payment of all charges for cases, packing, drayage, dock dues and other incidentals at seaport is included, but merely provides for delivery by rail to freight station at seaport. To include the expense of placing the goods on board the ship it would be necessary to have the quotation "F. O. B. ocean vessel Hamburg," etc.

*Foreign Delivery  
Conditions*

Other quotations which the importer will



Photo by Edwin Levick

### IMPORTED SUGAR IN STORAGE

Because of the likelihood of claims for losses due to leakage and other causes, these shipments are financed by draft on a basis of 95 per cent. of the contract price, the balance due to be adjusted after delivery and examination.



meet are "free factory" or "loco factory." These are usually more liberally construed, and goods so purchased are generally delivered by the seller to the freight depot without extra charge. C. I. F. quotations are the same as in export trade, and therefore do not include customs duties, delivery, dock or clearance charges in this country.

If the shipper or seller agrees to put the goods aboard ship, he will probably employ a shipping agent at seaport of his own choosing, but if not the importer should use care in employing a reliable forwarding agent. He will arrange for freight space, insurance if required, and will forward the shipping documents to consignee at destination. The shipping agent at seaport will arrange to gather the goods from various shippers and points, and forward the different consignments together, thus saving freight and handling charges. He will, according to instructions or to his best judgment, select the best shipping routes and generally perform the service rendered in this country by the export forwarder, as explained in Unit IV of the Course.

Foreign merchandise is sometimes sold at a fixed price, "duty paid and landed" here. Such a quotation is often insisted upon in cases where the purchaser does not wish to

assume the risk incidental to shipping the goods and effecting customs clearance because of fluctuating freight rates and possible customs difficulties. Such quotations are seldom applied to merchandise bought abroad, but rather to goods sold by the foreign manufacturer's agent or his branch office in the United States.

*The Consular Invoice* It would be well, on the order blank, to call to the foreign shipper's attention the fact that he is expected to draw up the consular invoice required by the United States government. This invoice should show in detail the elements of the transaction, including a specification of the method of packing, the marking of the packages, the quantity and price per unit of quantity for the goods, a complete description of the articles and a statement of the price paid or to be paid, together with the discounts and all rebates. It should also show any charges that may be assessed for commissions, packing charges, together with the cost or value of packing boxes, twine and paper.

This consular invoice should ordinarily be prepared in triplicate; when the merchandise is intended for transportation to an interior port, it should be in quadruplicate. It covers goods valued at or sold for

more than \$100 U. S. currency and should be presented by the shipper or his agent to the United States consul at the place nearest the place of the transaction. One copy of it the United States consul retains for his files, one copy is forwarded to the collector of customs at the port declared in the invoice, and one copy is delivered to the shipper, who forwards it to the importer or his agent for use in effecting customs clearance. The consular fee is \$2.50 gold or its foreign equivalent.

The regulations with regard to the invoicing of goods which are shipped to a manufacturer's branch house, agent or representative in this country to be sold for joint account or for account of the foreign shipper are equally as stringent as for goods actually sold abroad. In such cases a consigned or white form of invoice is used, as distinguished from the purchase or blue form which is used for merchandise sold. A consigned form of invoice must show the price at which the merchandise is freely offered for sale in the foreign markets and the price which the shipper would have received or was willing to receive if he had sold the goods in the foreign market rather than shipped them to this country to be sold for his or joint account. In such cases the invoice must be made out in the standard cur-

rency of the country from which the goods are shipped, whereas goods which have been sold should be invoiced in the currency of the transaction. Because of this, goods from China are often invoiced in pounds sterling or in German marks. Although these moneys are not the standard moneys of the country, they are much used in its trade and commerce.

In all cases the shipper should forward to the buyer not less than two plain copies or unconsulated invoices. These are for payment purposes and for the office use and information of the buyer. The consular invoice cannot be employed for these purposes, since it is required for customs clearance and is retained by the customs authorities.

## IV

### Customs Organization and Administration

THE student of foreign trade will find that many of the principles of export trade are paralleled in the import business. He will find that the principles remain the same though the process of employing them is reversed. Thus, the financial department will be accepting and meeting drafts, not drawing them; the shipping department will be receiving goods, not shipping them. Even the buying and selling departments will be working along lines, in both businesses, that are similar.

When we come to the customs regulations of the United States and the requirements which they make of importers, we are met with problems entirely new.

On export shipments the foreign receiver attends to getting the articles through the foreign customs. In the import trade the American buyer must attend to this. He needs a thorough knowledge, not only of the customs procedure, but of customs organization and administration.

*Customs Details  
Present New Problems*

The Customs Service regulates incoming

trade into the United States proper and into the Hawaiian Islands, Porto Rico and Alaska. The customs administration of the Philippine Islands is under the jurisdiction of the Department of War, and of the islands of Guam and Tutuila under the jurisdiction of the Navy Department.

The Customs Service not only has charge of the collection of duties on imported merchandise, but also attends to the entry and clearance of all vessels and cargoes. Revenue cutters to patrol the coasts and customs patrols on the Mexican and Canadian borders are also part of the service. The bonding of imported merchandise, the tonnage measurement of vessels, the collection of tonnage taxes and the survey and inspection of cargoes are some of the functions of the Customs Service. The administration of the neutrality laws is a duty that the customs officers now perform. The service exercises a control, not only over the incoming and outgoing ocean liners, but also over the many small motor craft, for which licenses are issued at the local customs houses. Bonded railroad cars that carry goods across the continent and to Mexico and Canada are sealed and unsealed by customs officers. The service also has in hand the investigation and granting of drawback.

The head of the Customs Service is the Secretary of the Treasury, and the actual administration of the customs laws is left to the Assistant Secretary of the Treasury, who presides over a division called the "Division of Customs." The seat of customs administration is at Washington, D. C., where a large force of men are employed who daily receive reports by mail and telegraph from the several districts called collection districts.

There are 48 customs collection districts, as follows:

Alaska,	Montana and Idaho,
Arizona,	New Orleans,
Buffalo,	New York,
Chicago,	North Carolina,
Colorado,	Ohio,
Connecticut,	Omaha,
Dakota,	Oregon,
Duluth and Superior,	Philadelphia,
Eagle Pass,	Pittsburgh,
El Paso,	Porto Rico,
Florida,	Rhode Island,
Galveston,	Rochester,
Georgia,	Sabine,
Hawaii,	San Francisco,
Indiana,	Southern California,
Iowa,	South Carolina,
Kentucky,	St. Lawrence,
Laredo,	St. Louis,
Maine and New	Tennessee,
Hampshire,	Utah and Nevada,
Maryland,	Vermont,
Massachusetts,	Virginia,
Michigan,	Washington,
Minnesota,	Wisconsin.
Mobile,	

The larger districts are again divided into ports and sometimes into sub-ports. A port of entry is any place at which customs officers are stationed.

At the larger and more important ports, the service is represented by a collector, naval officer, surveyor and an appraiser.

The collector is the chief officer of customs at the port to which he has been appointed. His duty is to see that all vessels

*The Collector  
of Customs*

coming within his district, and the merchandise therein contained, are duly entered at the custom-house; that all legally responsible parties are held to their liabilities; that the other branches of the Customs Service do their work as required by law; that the duties are properly assessed and collected, and that legal disposition is made of goods entered in bond or otherwise, or which are unclaimed; that smuggling and other frauds are prevented; that just fines, penalties and forfeitures are imposed and enforced. He is required to report fully to the Treasury Department at Washington on all that pertains to the customs revenue in his district.

The duties of the collector and his assistants not only include the collection of the tariff on goods entered for consumption, and the proper entry and clearance of vessels, but

also the surveillance and forwarding of goods imported by parties in other sections of the country through the port of entry, and on which the imposts, if any, are collected at the place of destination.

The custom-house that is known to the majority of travelers is the small shed or inclosed space on the pier labelled "Custom-House." It is here that the incoming passenger makes declaration and pays duty, sometimes after much annoyance, frequently brought about because of a failure to declare properly the entire dutiable contents of his baggage. Of greater import, however, are the custom-houses through which must pass the documents for the clearance of one and one-half billion dollars' worth of imports annually entering the United States.

Naval officers are established at the ports of Boston, New York, Philadelphia, Baltimore, New Orleans, San Francisco and Chicago. This office is a "check office" on the collector of customs. It in no way concerns or is concerned with our navy. The naval officer also checks the collector's records of vessels, accounts and manifests. All imported merchandise must be manifested, and no vessel can enter the port without filing her manifest at the custom-house.

*The Naval  
Officer in the  
Customs Service*

It is the duty of the naval officer to verify the clerical work done in the collector's office. The latter is performed under laws and regulations so complicated as to render independent revision indispensable in order to insure accuracy. The naval officer is sworn to correct errors, inadvertencies and neglect; and to enforce strict compliance with the federal laws. His action is coordinate with that of the collector "in all matters affecting the collection of customs revenue, so far as they involve the amount of money collectable and collected; the proper record, adjustment, correction and certification of accounts, including those of drawbacks and refunds; the enforcement of all laws and regulations for the safety of the revenue, excluding any and all concern in the administration of the machinery of collection."

The surveyor of the port is really the police officer of the port. In this capacity he has custody, pending its proper disposition, of merchandise landed from  
*Surveyor of the Port* foreign countries. After the ships unload, the surveyor and his subordinates visit and inspect the vessel, check off the import cargo, superintend the delivery of the imported merchandise, and the loading for exportation of all goods exported or



Photo by Brown Bros.

### UNITED STATES CUSTOM HOUSE, NEW YORK

This is the center of the New York Customs Service and contains the offices of the Collector of Customs, the Naval Officer and the Surveyor of the Port. The local offices of the Bureau of Foreign and Domestic Commerce are also located in this building.



shipped under government control. Subject to the collector, the surveyor is charged with the duty of superintending and directing all inspectors, weighers, measurers, and gaugers within the port; of weekly reporting all neglect of duty to the collector; of visiting, by proxy, all arriving vessels, and reporting in writing every morning to his superior all that have arrived from foreign ports on the preceding day—specifying the names and denominations of the vessels, the masters' names, whence arrived, whether laden or in ballast, the nationality, and if American vessels, whether the masters have or have not complied with the law requiring a definite number of manifests of the cargo on board.

He may act in certain cases with the collector and naval officer in allowing ships' manifests to be corrected. He must also put one or more inspectors on board each vessel immediately after its arrival in port; ascertain and rate, according to law, the proof, quantities and kinds of distilled spirits imported; examine the permits for delivery of the goods imported in any vessel and the actual deliveries thereof, and report any error or discrepancy to the collector and the naval officer. He must superintend the lading for exportation of all goods entered for the benefit of drawback bounty or allow-

ance; test, with public standards, the weights, measures, and other instruments used in ascertaining the duties on imports; report disagreements and execute directions for correcting them agreeably to the standard.

The appraiser of the port examines and appraises imported merchandise designated by the collector for examination. He reports

*The Appraiser* the market value or wholesale price of such goods on the date of shipment in the principal markets of the country from which it was exported. This report is made the basis for the assessment of duty, and although the appraiser and his subordinates make the report upon the invoice tendered by the importer at the time of entry, it is the duty of the appraiser to find and report the value of the goods, irrespective of any statement contained in the invoice or other paper. A difference of opinion between the appraising officer and the importer at times may create considerable confusion, but there is a method of adjusting such matters, as is explained later.

It is the duty of the appraiser to ascertain and report to the collector, under that official's orders, the quantity and description of all imported merchandise, except such as is dutiable on a weight basis, in addition to the foreign value. In doing this he calls atten-

tion to the paragraph in the tariff law within which, for the purpose of ascertaining the rate of duty, the importation falls.

The United States Board of General Appraisers was created by the Customs Administrative Act, which became a law on June 10, 1890. It is a permanent body of nine men, the law providing that no more than five shall be of the same political

*United States  
Board of General  
Appraisers*

party. They are selected with reference to their qualifications for the position, and their tenure of office is practically for life. This board is divided into three parts or sub-boards, of three general appraisers each.

General appraisers have exclusive jurisdiction over protests against the decisions of collectors of customs as to the rate and amount of duty chargeable on imported merchandise. Such protests can be reviewed by the United States Customs Court of Appeals, at Washington, and in certain rare cases by the United States Supreme Court.

The general appraisers also hear appeals from appraisements previously made by the local appraisers, involving questions as to the foreign value of imported merchandise. Such appeals are called reappraisements, and the decisions of the Board of General Appraisers in such proceedings are final.

The Board of General Appraisers has before it almost daily for adjustment appeals involving the question of the foreign market value of imported merchandise. It may consider the cost of production in such foreign markets and methods of manufacture, packing, etc. Often testimony is introduced bearing upon combinations controlling foreign sale prices and conditions. In appeals regarding the valuation to be placed upon imported articles, the hearings are open, but only to the interested parties—the government and the importer, or his agent, but not to the outside public. This seems equitable, as it tends to keep confidential business data as nearly secret as possible. Disputed classifications, affecting the rate of duty, and administrative provision disputes are of every-day interest, and often a test case at one port will affect hundreds of importers of similar goods throughout the United States, and these court proceedings are quite open.

During the life of a tariff act there is scarcely any important line of manufactured article that does not figure in some sort of customs litigation, and crude materials are likewise under consideration.

In consideration of the fact that the Board of General Appraisers annually reviews the report of the appraiser on considerably over

one hundred thousand invoices, an appreciation may be gained of the magnitude of this work. The nine general appraisers, termed the Board of General Appraisers, though located at the port of New York, hold sessions at the other important ports of the United States. One or two sessions are held each year at Honolulu, H. I. The president of the board may designate the port at which a general appraiser shall grant hearings and the date of such session, and in doing this consults the requirements of the importing business.

The Special Agents' Service, frequently referred to as the detective or secret service branch of the Customs Service, is under the general direction of the Assistant Secretary of the Treasury, Customs Division. This service is *Special Agents' Service* required to assist the collector in the detection of fraud in the revenue. The special agents have rather broad powers, and their existence seems to be well justified by the service they have rendered. This division is likewise charged with the investigation of all applications for the refund of duties under the "drawback" provisions of the tariff law, being called upon to verify the exporter's declarations and claims for rebate of duties alleged to have been paid on

the raw materials contained in the exported manufactured articles.

Special agents are maintained in the principal manufacturing and commercial centers of Europe, the Far East and South America. They seek to obtain information as to selling prices in foreign markets, and the methods and cost of manufacturing. Often competitive trade secrets are obtained. This information is valuable in the detection of fraud in the collection of revenue.

## V

### Customs Procedure

**T**HE routine of customs procedure for the importer is practically the same, whether the goods are entered through one of the big ports where the custom-house is a large institution with a highly organized staff, or whether they come in through one of the smaller ports. Customs officials at the latter, because of less familiarity with some of the lines of goods imported, often seek the advice of their more experienced colleagues at the larger ports, such as Boston, New York, New Orleans, San Francisco and Chicago. And in the appraisal of merchandise it is now the rule to send all reports of declared and appraised values and classifications to the appraiser at New York, who is presumed to have a wider knowledge of merchandise valuations because of the great volume of business coming before him. Recently a bureau known as the C. V. R. (Comparative Value Report) Bureau, elsewhere referred to and explained in greater detail, was established there to direct uniformity in appraisements.

These, however, are matters of internal or-

ganization. In any case, the principal steps which the importer must take are essentially the same at all ports.

The Customs Service at the various custom-houses is arranged in sections. The extent of the subdivision and organization

*Organization Within  
a Custom-House*

depends, of course, on the volume of business. In New York the work is so specialized as to enable each customs officer to become an expert in his particular branch. Most of the custom-houses have a marine division, entry division, bonded merchandise division, law division, liquidating or final adjustment division and drawback division. Additional divisions exist according to the needs of the service at different ports. In the following discussion the divisions will be taken up in the order in which the importer comes in contact with them.

The marine division, generally called the first division, has direct charge of the entry, clearance, and registration of all vessels. The

*Marine Division*

incoming vessel must first "enter." That is, her captain or chief officer must bring his manifest or statement of cargo, list of passengers, supplies and other papers to this division at the custom-house before he can secure permission to discharge his vessel's cargo. The manifest is made up

from the bills of lading of goods contained in the cargo. On the showing of this and the other documents submitted by the ship's officers, the vessel is "entered."

After the incoming vessel has docked at her pier, inspectors are assigned to it. They supervise the transfer of the goods from the vessel to the pier, see that all goods requiring to be weighed, gauged, measured or proofed are manipulated only by the proper officers, send goods ordered for appraisement to appraiser's stores, and other merchandise to warehouse or elsewhere as directed; allow no goods to leave the pier without permits, and deliver packages only to the authorized persons as directed in proper customs permits. These inspectors are from the staff of the surveyor of customs, and their operations are referred to at this time because the assignment of inspectors is made immediately after the ship's captain has reported at the marine division.

Clearance of merchandise is effected by filing clearance or entry papers in the entry division. The form is prescribed by the Secretary of the Treasury and is uniform at all ports.

*Clearance of  
Merchandise*

The essentials of an entry are: First, the bill of lading, showing title to the property; second, an invoice (consular, if the goods are

valued at over \$100); but should the consular invoice not have been received, a commercial invoice may be used and bond furnished for production of invoice certified by the United States consul.

The customs entry form or "blank" prepared by the importer or his agent must accompany the bill of lading and consular invoice. In this paper the shipment is described by shipping marks and numbers, and the foreign value of each kind of merchandise according to its tariff classification and rate of duty is specified. These valuations are converted into United States currency at rates proclaimed by the Secretary of the Treasury on the first day of January, April, July and October of each year. Upon this entry sheet the collector of customs estimates the duty based upon the declared invoice values and according to the description of the goods as stated in the invoice.

*Duty-Paid Imports* Entry for clearance of merchandise ordinarily cannot be presented at the custom-house until the arrival of the vessel, but in the case of current periodicals, newspapers, perishable fruit, a corpse or goods affected by other exceptionable circumstances necessitating immediate delivery, preliminary entry is granted in advance of the docking of the vessel, enabling the im-

porter to obtain delivery without delay. Merchandise not entered within 48 hours after the arrival of the steamer is sent into government warehouses as unclaimed. Goods not entered within one year from date of arrival are sold as unclaimed.

The duty paid at the time of filing the documents is only a deposit. When this required amount is deposited, the customs officials give the importer or his representative a delivery permit. But before the entire shipment can be delivered, the appraiser must make his examination and report. When an invoice covers goods that are all of the same general character, the collector designates 10 per cent. of the total quantity of packages (in no case less than one entire case or package) for examination. Especially bulky merchandise, machinery, raw skins and similar articles are frequently examined at the pier or the importer's warehouse, but the general run of imports is examined at a building known as the Appraiser's Stores. The remainder of the importation is deliverable direct to the importer if the goods are entered for immediate consumption. Actual delivery is made by the truckman on the authority of the customs delivery permit. However, such delivery usually cannot be accomplished until the freight charges have been paid to the

steamship company, though this is a detail in which the customs officials are not interested.

Sometimes the importer does not desire to take the goods out immediately. Frequently, for example, merchandise is imported in advance of the importer's needs. In

*Imports in Bond*

such cases the goods may be placed in a government bonded warehouse at the importer's risk and expense but under government control.

By this plan the importer is relieved from immediate payment of duty on the merchandise, the duty being collectable only when and as the goods are taken out of bond. This deferred payment plan enables the importer to place his orders at favorable times and to take advantage of the price concessions which he can gain through large-scale purchases, without being called upon to bear the burden of immediately paying the heavy duties entailed.

It is the practise to class all goods in bonded warehouse as though they had not yet been imported, the duty being assessed only when the goods are withdrawn. It is because of this that importations generally increase, and temporary storage of merchandise in bonded warehouses is correspondingly heavier, when a decline in tariff rates is an-

ticipated. Of course, the rule works both ways. If a new tariff goes into effect levying higher duties, these duties are payable on all goods in bond, even though the goods may have come into the country long before the new tariff was enacted.

The value of the goods at the time of original importation is the basis of subsequent payment of duties, regardless of the value of the goods at the time of withdrawal. In the case of goods dutiable on a weight basis, the goods are weighed upon arrival, and the report of this weight is likewise the basis for assessing the duty; this is the rule regardless of any loss or gain in weight which may have taken place during the interval between arrival and withdrawal.

There are certain restrictions as to the amount of merchandise that may be bonded. If the goods are packed, the importer may not place in bond less than one package or case; if they are in bulk, the minimum that may be placed in bond is one ton. Goods may not remain in bonded warehouse for longer than three years.

In effecting the customs entry of goods intended for storage in a government bonded warehouse, the mode of procedure is similar to that for goods intended for immediate consumption. The entry form describes the

shipment by marks and numbers, with separate columns for the various classifications, the foreign and the United States equivalent. Even in the appraisal the method and order of procedure remain the same, with the one difference that the shipment is carted to the government bonded warehouse by a licensed truckman instead of to the merchant's place of business by his own truckman.

Goods may be withdrawn from bond for consumption, for transportation in bond or for export.

The procedure in withdrawing goods for consumption is simpler than that in the case of the original entry, and generally release can be effected in a few hours. The

*Withdrawal  
from Bond*

duty has already been estimated, and examination and appraisal have taken place. The warehouse entry form shows the value and tariff classification, and this forms the basis for the withdrawal entry. In the case of package goods, less than one package cannot be withdrawn; in the case of bulk goods, the minimum that can be withdrawn is one ton.

Goods in bonded warehouses may be transported in bond to any other customs port, and there either again placed in bonded warehouse or immediately released on payment of duty. Either appraised or unappraised mer-

chandise may be transported in bond under government supervision. In the case of goods arriving at seaports on the Atlantic coast-line intended for consignees in the interior or the far West, it seems desirable to avoid unnecessary opening of the goods at the port of first arrival. Accordingly, an agent—who may be the steamship company's representative or the representative of the railroad, or, more likely, a custom-house broker—prepares what is known as an immediate transportation entry. This authorizes the loading of the goods in cars bonded by the railroad company, no examination or appraisal at the initial point being required. The bonded cars are sealed by customs officials. The collector of customs at the initial landing port forwards the immediate transportation entry or advice of the shipment to the collector at destination, and at the latter place final disposition is made of the goods as though they had been landed there direct from the steamer. The method of procedure is the same for goods landed on the Pacific coast destined for places inland or in the East.

In much the same way merchandise may be withdrawn from bonded warehouse for exportation, but as in the case of other forms of withdrawal from warehouse, not less than an entire package or one ton may be ex-

ported. The outbound shipment must be made under government control, and upon proof of landing in a foreign country the bond given at the time of original importation for the payment of duty or for the exportation will be canceled.

After the preliminary clerical work has been completed in the entry division, and the amount of duties estimated, the actual payment of duties is made to the cashier. The following moneys of the United States are receivable for duties (Customs Regulations, 1915, Arts. 945 and 946):

*How Duties  
May Be Paid*

*Gold.*—Gold coins of the United States at their nominal value, in unlimited sums, provided the loss of weight by abrasion or ordinary wear does not exceed  $\frac{1}{2}$  of 1 per cent. in 20 years or in that proportion for a shorter period of circulation.

*Silver and Minor Coins.*—Silver dollars of the United States, other than trade dollars, at their nominal value, in unlimited sums. Silver half dollars, quarter dollars and dimes, at their nominal value, in sums not exceeding \$10 in any one payment. Minor coins of the United States, the 5-cent piece and 1-cent piece, at their nominal value, for any amount not exceeding 25 cents in any one payment. No distinction will be made on account of the date of the coinage or denomination of any silver or minor coins.

*Notes.*—United States demand notes, United States Treasury notes, gold and silver certificates of the United States, and federal reserve notes issued under the provisions of the Federal Reserve Act of December 23, 1913, at their face value, in unlimited amounts.

The circulating notes of national banks, at their face value, in unlimited amounts, are receivable for all payments other than duties on imports.

*Certified Bank and Travelers' Checks.*—Certified checks are receivable for duties on imports and for payment of all public dues, including special customs deposits, when drawn in favor of the collector on national and state banks and trust companies located in the same city as the depository with which such checks will be deposited, provided that no person who shall have tendered a certified check as provisional payment of duties or public dues of any kind shall be released from the obligations to make ultimate payment thereof until such certified check shall be duly paid. Certified checks can also be accepted when drawn on like banks and trust companies in other cities, when they can be cashed without cost to the government.

*Travelers' Checks* are receivable for the payment of duties when properly accepted and certified by the banks or trust companies above described.

Having received the duty, the cashier stamps on the entry a notation to the effect that such payment has been received, and the

date. He then checks the delivery permit as proof of receipt. Moneys received at some of the larger ports are deposited daily at designated depositories. In the case of New York, Chicago, Boston and San Francisco these deposits are made at the sub-treasuries.

*Customs Statistics* Statistics of imports are compiled and published by the Bureau of Foreign and Domestic Commerce of the Department of Commerce from data supplied by the collectors of customs.

Tabulated reports of imports, records of goods placed in bonded warehouses or withdrawn for consumption are sent daily by collectors at all ports except New York to the Bureau of Statistics at New York, where the statistics for the entire United States are prepared. Statistics are compiled to indicate the country of exportation and the nature of the imports. The Secretary of Commerce and the Secretary of the Treasury are empowered to require that certain information valuable for statistics accompany the entry declaration, the purpose being to secure and prepare the data in a comprehensive manner. The value of these statistics has been repeatedly demonstrated. The information they contain is much sought by importers and manufacturers, and is of value to Congress when it is considering revision of the tariff.

## VI

### Appraisement and Final Adjustment of Duties

**A**FTER the customs entry has been made, as described in the foregoing Chapter, the collector of customs sends the invoice to the appraiser. It is the province of the latter official to investigate the goods, see that the shipment accords with the description contained in the invoice, determine the foreign value of the goods, and report back to the collector on these points.

At the time the invoice and entry were filed, the collector designated a portion of the goods for detailed examination. The remainder of the shipment was either delivered to the im-

*Portion of Goods  
Examined in Detail*

porter or sent to a government bonded warehouse. The portion designated for examination is taken to the appraiser's warehouse or examined elsewhere (in the case of bulky merchandise) as directed by the collector, and, upon the receipt of the invoice, the appraiser assigns one of his examiners to make the investigation and check up the shipment. In the larger ports this work of appraisal is divided among a staff of examiners, each of whom is an ex-

pert in some line of merchandise. If the consignment is varied, it is first assigned to the examiner best qualified to pass on the goods forming the larger part of the lot; when he has finished his examination, it is passed on to other examiners to check up and appraise other merchandise in the shipment.

The examiner inquires into the contents of the shipment on the basis of the invoice. That is to say, his work is to determine whether or not the invoice correctly describes and lists the articles contained in the shipment. The same care is given to the examination and appraisal of non-dutiable that is given to dutiable goods.

The appraiser and his examiners do not determine the rate of duty. In his report to the collector, the appraiser advises of the outcome of the inquiry in his department, specifies the exact nature of the imported article, usually in terms of the tariff. He also indicates, in an advisory capacity, the paragraph of the law and rate of duty applicable. He appraises the merchandise, determining what was its market value in the principal markets of the country of shipment at the date of shipment; this report of value, also forwarded to the collector, is independent of any invoice filed by the importer. The examiner is presumed to have knowledge of



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## CASES OF IMPORTED MERCHANDISE ARRIVING AT THE APPRAISER'S STORES

These are cases designated for examination from a shipment that has been received from France.



foreign values of goods, and keeps himself constantly informed, particularly at the larger ports, where there is opportunity to make comparisons with importations of many importers. He is also assisted in keeping thoroughly up to date by the United States consuls and resident investigating officers abroad, and at ports other than New York by the C. V. R. Bureau.

It is obviously desirable and almost essential that importers of similar merchandise brought in under like conditions be charged equal duties. Certainly in the

case of goods taxed on an *Appraisal Policy*  
ad valorem basis the assess- *Must Be Consistent*

ments of value should be consistent. If the appraiser should pass goods for Smith reckoned at a lower value than the same kind of goods passed for Brown, he would be a party to the nullification of our tariff laws and would be placing Brown at a distinct disadvantage. Clearly, the policy of appraisal must be consistent. After all it should make little difference to importers, particularly of merchandise which does not compete closely with domestic goods, whether they pay a little more or a little less duty so long as each can feel certain that his competitors pay no less on the same kind of merchandise.

This policy has met with the indorsement of importers throughout the land. In keeping with it, the Secretary of the Treasury has from time to time promulgated schedules for the appraisal of goods which can be equitably appraised by a fixed schedule. Notable examples are the St. Gall schedule for the appraisal of embroideries and laces from St. Gall, Switzerland; the Nottingham (England) cotton netting schedule; the Limoges (France) porcelain schedule; and the linen tables for certain kinds of Irish linens.

These schedules are very generally approved by importers, not only because they are an assurance that all are being assessed duties on an equal basis for the same kinds of merchandise, but also because the schedules enable them to calculate their costs with greater certainty than would be the case if they had no advance guide as to the appraiser's view of the value of their imports.

By means of reports called C. V. R. (comparative value reports), made regularly to the appraiser at the port of New York, customs officers throughout the country keep in close touch with one another on comparative values. Samples with declared values of merchandise entered at smaller or sub-ports, and even at some of the large ones, are sent to the appraisers at New York for advice.

Some years ago it was commonly said that three different appraisers at as many ports would each place a different rate and value upon the identical merchandise. Such cannot be charged now. With the adoption of the C. V. R., and the yearly conferences of the appraisers, uniformity of action has been established.

If, upon examination of the retained merchandise, the appraiser finds that it is as described in the invoice, both in value and in rate of duty, this merchandise is immediately delivered to the importer by a

*When the Examination  
Has Been Made*

representative of the collector in the appraiser's office. Should the appraiser find that the invoice does not correctly describe the importation and that there are, in his judgment, inaccuracies in its statement of value or rate of duty, the collector, at the suggestion of the appraiser, may require the importer to produce all or any part of the goods which were previously delivered to the importer.

Since the importer has bound himself not to dispose of the goods delivered to him direct from the pier, the government's request to turn over to the appraiser for examination the further portion of the goods covered by the invoice can readily be complied with. If

it is apparent that the error was in the rate of duty only, and that there was no intention to defraud the customs, no action is taken—other than to secure a further deposit to cover the difference between the duty that was paid on entry and that to be paid. Foreign invoices do not always contain an exact statement of the goods they cover, and it is not infrequent that the entry declaration will misstate (without any wrong intent) the paragraph of the law, and consequently the rate of duty applicable. However, if the discrepancy relates to the value of the article, the matter is treated under a different procedure, discussed in Chapter VII.

How does the appraiser determine value?

If goods are freely sold and delivered at wholesale in the principal markets of the country from which they are imported, that price is the market value. If they are not so

*Rules Governing  
Appraisement*

freely sold and delivered, or are manufactured especially for our markets, the appraiser is required to ascertain the price at which such or similar imported merchandise is freely sold in our own markets. By making an allowance for duties, freights, insurance and other expenses, incident to handling the goods in this country, and a further statutory allowance for profit or commission,

a figure can be arrived at. This the appraiser reports as the foreign market value for customs purposes.

A third method is "the cost of production" method. Under it the appraiser ascertains the cost of all materials, all costs of manufacturing, overhead expenses, and adds thereto an arbitrary percentage for manufacturer's profits, ranging from a minimum of 8 per cent. to a maximum of 50 per cent. This, however, is only an advisory method. The chief concern of the appraiser in determining market value is to fix a price which is the price at which the merchandise is actually sold and freely offered for sale in the principal markets of the country from which it has been imported. Thus it will be seen that the basis of assessing duty on ad valorem goods is not necessarily the cost price, but market value, as defined in the foregoing.

Unusual discounts for especially large quantities or discounts allowed because of unusual conditions, such as special need on the part of a manufacturer or seller for funds, are not considered legitimate elements affecting foreign market value.

The importer of merchandise obtained by purchase is required to declare the true costs of the goods at the date of purchase. He

should, by memorandum attached to the entry declaration, raise the invoice figures to what he believes to be the market value, or wholesale price, of the goods on the date of shipment in the principal markets of the country from which they have been shipped. The date of shipment, for merchandise exported from seaport countries, is the date of the departure of the vessel, as shown by the customs record (marine division), not the date of the invoice. As to shipments from inland countries, the "date of shipment" is the date the goods cross the frontier. The obligation resting upon the purchaser to declare the true market value, notwithstanding any purchase at a lower price, is similarly imposed upon the agent or branch house, which should raise the invoice price to make correct market value for dutiable purposes.

Merchandise contracted for in an advancing market (and not for immediate delivery) should not be entered or declared until

*Merchandise  
Contracted for  
Future Delivery*

the importer has made inquiry as to its market value at the date of shipment. For this purpose, he should consult recent price lists, and "raise" the invoice price to a price which he would have to pay for the goods if he had bought them on or about the date of shipment. Care exercised on such occa-

sions will save annoyance and additional expense.

Not only is the importer required upon entry to raise the cost or invoiced price to declare the market value, but he may also deduct so much as in his judgment may be necessary to bring the cost or invoiced price down to the price at which similar merchandise is freely offered for sale in the principal markets of the country of shipment and at the date of such shipment. An importer who has bought at retail may deduct for duty purposes so much as he can show is the difference between the wholesale and the retail price of the article in question.

Any addition to the invoice price and likewise any deduction from this price must be made upon original entry—that is, at the time the invoice is presented to the collector of customs. Once the documents have come under the observation of the appraiser, no change in the declared value is permitted.

In the administration of so important an office, many controversies will arise. Those requiring judicial determination are first referred through the collector's office to the Board of General Appraisers, while others that require administrative action are referred to the collector of customs or direct to the Treasury Department.

The duties paid either upon the original entry of merchandise at the custom-house or upon withdrawal of goods from government bonded warehouses, are estimated duties only. Not until the appraiser has reported (and, in the case of goods dutiable upon a weight or measurement basis, not until the surveyor also has made his report) can the final accounting or adjustment be made; but in the meantime the goods may be delivered. When it is apparent that the sum originally paid is insufficient, delivery is withheld until a further deposit can be made to cover the increased duties.

*Final Adjustment  
of Duties*

The liquidating division, or bureau of final accounting, determines the actual amount of duty due. Its action is based on the report and recommendation of the appraiser or general appraiser, Board of General Appraisers, or Customs Court. In cases where the merchandise is dutiable on a weight, gauge or measurement basis, the liquidation is based also upon a report of the surveyor.

The duty first paid at the custom-house was a deposit subject to adjustment. This adjustment or liquidation may be any one of three kinds: (1) *no change*, in cases where the liquidated duty is identical with

the duty paid on the original entry; (2) *increase*, when a further sum has to be paid; (3) *refund*, when more than regular duties were deposited and a rebate is due the importer.

In any case notice of liquidation is given. In the event of "no change" liquidation, the notice is simply posted in the custom-house. In the event that the liquidation is either "increase" or "refund," written notice is mailed to the importer in addition to the posting of notice of liquidation at the custom-house.

The appraiser reports to the collector's office (liquidating division) the market value of the merchandise covered by the invoice submitted to him, but since the basis of final liquidation is the dutiable value as distinguished from the market value, the collector's liquidator has the problem of finding the dutiable value. This he does by adding to the market value as determined by the appraiser the items of cost, such as case and packing charges—for the dutiable value is the value of the goods packed ready for shipment. A usual container (packing case) carries the same rate of duty as the merchandise therein contained. If such contents are dutiable at varying rates, the case charge is prorated over the various classes of merchandise.

The collector liquidates entries as promptly

as the stress of business will permit after the appraiser has made his report upon the in-

*When Liquidations  
Are Made*

voice and the surveyor has furnished the collector with the weight or measurement of the dutiable goods. In cases in which an appeal has been filed with the Board of General Appraisers for a review of the appraiser's finding of value, liquidation must be suspended pending the outcome of such appeal.

In cases of disputed classifications, thus affecting the rate of duty charged, liquidation of the entry will be proceeded with, after which liquidation appeals may be filed. In the event that the appeal is sustained, re-liquidation of the entry will be made.

Entries covering merchandise released from government custody cannot be reliquidated after the expiration of one year from the date of entry, except in cases of fraud or of protest.

In liquidating a customs entry, the duty due is calculated without regard to the duties which have been deposited. With the in-

*How Liquidations  
Are Made*

voice the appraiser's report showing both the value and the advisory rate of duty on each item before him, the clerk (liquidator) figures the actual duty in practically the same manner that was used in making the

original entry prior to the appraiser's report, but with greater accuracy.

Whenever the difference between the amount of duty paid upon original entry and the liquidated duty is caused by a change in the rate of duty, no penalty is charged against the importation—unless the case is one of fraud. For example, the payment at the time of original entry of 50 per cent. duty on silk wearing apparel under the belief that it contains no embroidery, which the appraiser later finds is embroidered and dutiable at 60 per cent., involves the importer in no difficulty other than delay in delivery.

If, however, the appraiser, general appraiser or Board of General Appraisers finds that the goods possess a higher value than that declared in the original entry, additional duties (penalties) accrue. They are calculated in the following manner.

#### *Additional Duties*

Whenever the appraised value exceeds the entered value, there is levied, in addition to the regular duty, additional duty of 1 per cent. for each 1 per cent. that the appraised value exceeds the entered value. Such additional duties are not construed to be penal duties, but are in reality so regarded by importers, since they are the result of an

alleged false declaration of cost or value. These additional duties cannot be remitted except by order of the Secretary of the Treasury, and by him only in cases where a manifest clerical error has been proven. The customs court decisions defining manifest clerical errors are rather too narrow to permit of much relief in these cases. Though the merchandise is exported, the additional duty (penalty) must be paid. An example of the working of this additional duty provision follows:

Invoice and declared value of 1,000 yards of wool cloth at francs 5 each—francs 5,000.

Duty paid on entry, francs 5,000 (\$965), 35 per cent. (rate applicable to woolens) = \$337.75 duty.

The appraiser reports the proper value to be francs 8 per yard—total, 8,000 francs. The percentage of undervaluation is  $\frac{3}{5}$ , or 60 per cent., and the additional duty (penalty) is 60 per cent. of the total appraised value. A liquidation would read about as follows:

Appraised value,		
francs 8,000 . . . .	\$1,544—35%	\$540.40
Additional duties . . .	1,544—60%	926.40
		<hr/>
Liquidated duty . . . . .		\$1,466.80
Deposit or original payment . . . . .		337.75
		<hr/>
Due . . . . .		\$1,129.05

The foregoing instance illustrates the importance of the appraisal of goods. Appraiser's advances, other than in cases of fraud, are more generally less than 25 per cent. These cover the changes in an advancing market. Whenever the appraised value exceeds the entered value by more than 75 per cent. the entry is presumed to be fraudulent and the goods undervalued are declared forfeited. If delivery has already been made, the value of the goods is recoverable from the importer.

Penalty does not accrue when merchandise is unconditionally free of duty or in the case of goods dutiable at specific rates, but only in cases where the duty is based upon or regulated by the value.

Customs laws require a payment of duties on all goods imported into the United States, and if goods are stolen after landing, though it be while the merchandise is in possession of the custom authorities, full duty is exacted. Recently a large number of packages in a government bonded warehouse were rifled and part of the goods stolen. The importers were inclined to believe that since these goods were under government control they were not liable for the duties. The federal court held otherwise, however, and full duty was assessed.

*Damaged and Stolen  
Merchandise*

The Secretary of the Treasury is authorized to rebate the duty on merchandise destroyed by fire or other casualties, while such merchandise is in government custody. Accordingly, the San Francisco earthquake was held to be a casualty within the meaning of the tariff law. Duty having been paid, and the goods found to have suffered heavy damage, the importation, or in some cases part thereof, may be abandoned to the government and duties rebated.

Though the public may not so understand it, the customs officers are in direct charge of the importation of dutiable merchandise

*Imports by Mail*

through the mails, and of packages believed to contain goods liable to duty. There is a general disposition to deal leniently with persons receiving trinkets and souvenirs and articles of small value through the mails, especially in the gift seasons of the year. The regular importation of dutiable merchandise through the mails is not generally practicable except as to goods of small bulk and weight and coming from places where shipping facilities are not good. Since the present war began there has been an increase of parcel post importations. When merchandise having a value of more than \$100 is imported through the mails, the regular form of customs proce-

ture, as described in Chapter V, must be followed.

Since customs officers handle the invoices, and frequently have access to the books and confidential records of so many importers, and competing importers at that, it is of interest to know that the "information contained in invoices, entries, manifests, or other papers and documents filed at the custom-house must be treated as confidential, except for the purpose for which the documents are required to be filed." (Article 1184 of the Customs Regulations, 1915.)

## VII

### Tariff Laws and Customs Controversies

**T**ARIFF acts are based on two general principles of political economy: (1) to afford protection to domestic industries, (2) to furnish sources of revenue for the support of the government. Rates of duty in a protective tariff are based largely on the difference between the cost of production in foreign countries and its cost here. Rates of duty in a tariff for revenue are based on the volume of imports, and are generally fixed at a figure which will not diminish importations and will bring into the Treasury a certain amount of revenue.

Duties for protection are sometimes very high. For example, under a provision of the Tariff Act of 1909 fancy chains, necklaces, collar buttons and similar articles designed for personal wear were subject to a duty of 85 per cent. ad

*Duties for  
Protection, and for  
Revenue Only*

valorem. It is well known that the manufacture of such articles is an extensive industry in this country. In the same act the duty on wool clothing was placed at 44 cents a pound plus 60 per cent. ad valorem, which

amounted to a total tax of about 100 per cent. Duty for revenue only is illustrated by the case of the duty on coal tar dyes in the Tariff Act of 1913, which is 30 per cent. *ad valorem*.

The law provides that rates are *specific*—that is, reckoned on the weight, measurement or quantity basis; or *ad valorem*—that is, reckoned on value; or *compound*—that is, rates based both on quantity and on value. Those who favor *ad valorem* rates reason that such a tax places the burden more heavily upon the higher-priced articles or luxuries, and that the rates of duty are more evenly administered than on a specific basis. On the other hand, the advocates of specific duties urge that such duties are more readily and equitably assessed, the ascertainment of quantity, weight or measurement being accomplished with less likelihood of error and with a reduced opportunity for fraud by undervaluation.

Customs controversies seem to be inevitable. While Congresses have the benefit of the history of all past disputes and customs court decisions, and endeavor to frame the tariff laws so as to avoid controversies, it will be found that contests will continue to develop. The Board of General Appraisers deals annually with about one hundred thousand protests involving disputed classifications.

The more usual controversies are those not tainted with charges of fraud. They are simply honest differences of opinion, and they are of two kinds—matters of disputed classification involving differences in the rates of duty, and matters of disputed valuation—this latter class carrying with it additional duty or penalty.

Inasmuch as the tariff laws do not mention by name every article or even every class of articles imported, there is frequently doubt as to the paragraph of the law under which duty should be assessed.

*Controversies over  
Classification  
and Rate*

The rate adopted by the collector in liquidating an entry is usually the rate suggested by the appraiser.

Appeals from the assessment of a rate of duty or from an interpretation of the administrative provisions of the tariff laws, are called protests. Protests cannot be filed until after liquidation has taken place, but must be filed within 30 days of liquidation. Each protest must be accompanied by a filing fee of \$1, but this may include more than one shipment or entry if it covers the same general claim and is on behalf of only one importer. The fee is returned if the protest is sustained.

Protests are filed with the collector. If



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## UNITED STATES APPRAISER'S STORES, NEW YORK

Imported goods coming within the New York customs district are examined and appraised here. Although some bulky articles are examined outside, the documents must be passed upon in this building. The United States Board of General Appraisers and the Drug and Food Laboratory also have their offices here.



he finds that the importer has complied with the required conditions as to date of filing and payment of fee, the collector forwards the documents to the U. S. Board of General Appraisers. The president of the board assigns the case to a sub-board of three, and a date is set for trial of the issue.

In these proceedings, and in all questions involving the matter of values, the action of the collector is presumed to be correct. The burden is upon the importer to prove his case. The government is represented by the Assistant Attorney General in charge of customs matters for the Treasury Department. Not infrequently the government solicits the aid of domestic manufacturers who are anxious that high rates of duty be maintained. It has been charged that the customs authorities have distorted the tariff laws as passed by Congress, but these charges have generally been made in the heat of argument and without foundation.

When the three general appraisers have rendered an opinion, the importer has further redress. If the decision is against him, he can appeal to the United States Customs Court of Appeals, sitting in Washington, and in most cases its decision is final. Rare cases involving a question of the constitutionality of the act or a treaty provision, may be ap-

pealed still further to the United States Supreme Court. Of course, the right of appeal is open also to the collector, and if the decision of the three general appraisers is contrary to his judgment in the matter he may carry the case to the higher court. In these customs controversies the government pays neither costs nor interest.

One point that the importer should bear in mind is this: Refunds are made only as a result of lodging a protest and validating the protest by paying the customary filing fee. The mistaken impression prevails in some quarters that when a test case has been won an importer who has failed to protest but whose interests are identical will secure relief.

***To Secure Relief  
Importer Must  
File Protest***

Moreover, protests must be in the right form. A protest that is not sufficiently specific will be dismissed. One that makes an inaccurate claim can secure no relief for the protestant. For example, if an importer whose merchandise is assessed at 60 per cent. claims that it is dutiable at 45 per cent., and the general appraisers or the court hold that the proper rate of duty is 35 per cent., the importer loses. Because he failed to make a proper claim, relief is denied.

When the general appraisers or the cus-

toms court have settled the issues involving a disputed classification or administrative question, the entry, together with the invoice and a memorandum of the final decision, is returned to the collector at the port where the entry was made. If the decision calls for re-liquidation of the entry, the collector does this in accordance with the decision and the settlement is completed.

It is not strange that disputes are so frequent. Tariff acts sometimes contain provisions which can be interpreted in more than one way to produce very different results. They specify a large number of articles which are enumerated by name as sub-

*Tariff  
Interpretations  
Vary*

ject to or exempt from duty, but there are many other articles entering into commerce which are not mentioned by name. In order to prevent any article from escaping duty unless it is specifically exempted, the tariff laws provide for the collection of duty on any articles not enumerated.

Under the Tariff Act of 1913, for example, raw or unmanufactured articles not specifically enumerated are required to pay 10 per cent. ad valorem. In the same tariff it is provided that articles manufactured in whole or in part and not specifically enumerated in the Act shall pay a duty of 15 per

cent. ad valorem. In order that an article which is subject to a high rate of duty may not escape the payment of this duty by being brought in with slight alterations which might seem to classify it for a lower duty, the tariff act contains a provision that any unenumerated article which is similar (in material, quality, texture, or the use to which it may be applied) to any article enumerated in the act as chargeable with duty, shall pay the rate levied on the enumerated article which it most resembles in any of the features mentioned.

An importation of bricks made of pulverized pumice stone and clay of different grades—the texture varying with the particular use in polishing wood or stone to which the article was to be put—was the occasion for a customs controversy. There was a provision in the tariff act for “pumice stone wholly or partly manufactured,” but the court held that these bricks were not pumice stone for the reason that they contained other ingredients. It was held, however, that the bricks should bear the same duty as that imposed on pumice stone for the reason that in texture, material and in the purpose for which they were to be used the bricks were substantially similar to the pumice stone for which Congress had specified a duty.

Tariff acts frequently specify that an article made of two or more materials shall pay an ad valorem duty based upon the component material of chief value. Many textiles are made of mixed materials, silk and cotton or silk and wool. In such cases it is the practise to refer the article to an analyst, who ascertains first the exact quantity of each of the materials composing the fabric, and then, by computing the cost of such quantities, determines which of them is the material of chief value. Duty upon the whole is assessed accordingly at the rate applicable to the material of chief value.

Toys are frequently the subject of controversy, and exactly what may be included under that heading is difficult to determine. Such things as jockey caps made of tissue paper, miniature golf bags and sticks, footballs and cardboard hats are articles which would generally be classed as toys. The courts have held toys to be articles primarily designed and generally intended for the use of children. There are occasions when such articles as those mentioned are used as favors at social gatherings for adults. In such cases, not being intended for the use of children, they are not within the customs classification of toys.

One of the most extensive controversies

involving rates of duty was the so-called "hat material case." It was an open question between the government and the importers for many years, and involved claims for duties exacted without warrant of law amounting to many millions of dollars. In that case, the tariff provided a 20 per cent. ad valorem duty on materials for hats, including braids, plaits, laces, and other articles used for making or ornamenting hats composed of straw, chip, grass and other substances. The importers brought in for hat-making purposes silks and other materials which, if classed other than as hat materials, would be subject to a much higher rate than 20 per cent. The claim was made that they should pay on these imports the duty assessed for hat materials. After many years of litigation it was finally determined in the courts that the use of an article was one deciding factor in determining its rate of duty, and eventually the protest was settled in favor of the importers.

The importer who sells his merchandise on samples before he has purchased them should be careful to consider the likelihood of a change in the rate of duty—not only a change in the law itself, but a change in the interpretation of the law.

Whenever the customs authorities conclude

that an article should be advanced to a higher rate of duty than it has been the uniform practise to assess, the Treasury Department will give notice of the change, and the higher rate will not become effective until

*Importer Should  
Safeguard Himself  
Against Advance*

30 days thereafter. However, if the practise has not been uniform, no notice need be given by customs officers in assessing an article under a paragraph carrying with it a higher rate of duty than it has been the practise to demand.

A jobber in this country sold at a low price some goods which were yet to arrive, figuring on a duty of 10 per cent. This was the rate at which he had previously imported similar goods, though there had not been sufficient importation to establish a general practise. The collector viewed the matter differently when the new shipment arrived, and taxed it at 44 cents per pound plus 55 per cent. ad valorem. A protest could scarcely be decided for six months or more, and meanwhile the importer had to deposit with the customs authorities sufficient to cover the duty assessed.

Merchants taking import orders or orders for goods to be imported, as distinguished from sales from stock, should take such orders "subject to change in tariff"—particularly in times when changes are likely to be

made by Congress. To be doubly certain and guard against a possible change in interpretation of the law by the customs officials, such orders sometimes are conditioned "Subject to change in tariff classification or interpretation of existing laws and regulations."

But there is a further point, other than classification and rate, upon which customs controversies frequently hinge. There are

*Controversies  
over Valuation*

differences of opinion as to the proper value of imported merchandise, and that these are numerous is evidenced by the fact that about eight thousand appeals for review of the appraiser's findings of value go up each year to the Board of General Appraisers.

If an importer has regularly entered his merchandise and the appraiser considers that the valuation placed upon the merchandise is too low, the appraiser usually will send for the importer and ask him to show the original copies of orders, correspondence and proof of payment (if the latter has been made). He will certainly do this when he suspects the good faith of the declaration, but in any event he may ask the importer to produce his records. It may be that the wares have been contracted for a year or more in advance of the shipment, purchased perhaps in an advancing market or in unusual whole-

sale quantities, or it may be that there are other special reasons why the importer secured the merchandise at a low price; such reasons would show up in his records.

Or it may be that the appraiser, on disagreeing with the valuation declared by the importer, will go to competitor importers, getting their views on the valuation without revealing details of the particular shipment under consideration. The appraiser submits the goods to a thorough test, often consulting the government's analytical bureau. A chemist and a laboratory are at his service.

Finally, when he has used every means to determine the facts, the appraiser takes action. He may conclude to pass the invoice as entered. If not, he advises the collector that a specific sum (in the currency of the invoice) must be added to make market value. "Appraiser adds to make market value," is the phrase he uses.

In the latter case, the collector advises the importer of the appraiser's action. The importer may accept the verdict of the local appraiser, but if he believes that his invoice is correct as to cost and that his entry properly states the value, he probably will conclude to file an appeal. This must be done within ten days of the date of the notice of advance.

*Appeal to Re-appraisement*

Delivery of the goods may be secured pending decision on appeal if the importer or his agent will deposit a sum to cover the additional and penal duties. Meanwhile, the collector forwards the invoice with the appraiser's report to the Board of General Appraisers.

A general appraiser is then assigned by the president of the board to try the issue. The government is represented by the Assistant Attorney General's office. The importer appears in person or by counsel and the burden of proof is his. He is presumed to have understated the true value on his entry declaration (though not necessarily with intent to defraud). The general appraiser receives the importer's evidence. Both sides have probably called witnesses, submitted affidavits from the shipper, or quotations from other shippers, all tending to prove the wholesale market value of the goods under consideration on the date the goods left the country whence imported, and in that country's principal market. Competitors, at the request of either the government or the importer, not infrequently give testimony as to the price at which they bought similar or comparable merchandise.

Finally, on the basis of the evidence, the general appraiser renders a decision and re-

ports his findings to the collector. In doing this he may sustain either the importer or the appraiser, or he may find a value different from either the entered or appraised value. In any case, his decision is final, unless timely appeal is made by the collector or importer to a board of three general appraisers, upon which board the general appraiser who first heard the case does not serve. The decision of the board is final and conclusive against all parties upon all questions affecting the value of imported merchandise.

Reappraisement hearings are open to all interested parties. The general appraiser's functions are inquisitorial as well as judicial, but evidence showing the market value of goods in a foreign country other than the country from which the goods under consideration were imported cannot be introduced or received.

There have been cases in which the general appraiser had personal knowledge of the good faith of an invoice and the value therein stated, but notwithstanding this he sustained an advance made by the appraiser because it developed upon trial that the seller had sold the goods below the "market value" or usual wholesale price.

A case involving a penalty of \$15,000, though the difference in actual duties was

probably less than \$1,000, was a recent occurrence. The appraiser advanced the value of certain antimony shipped from China. The shippers owned the mines and were the largest producers in that country. The appraiser seemed to predicate his action upon invoices of other importers who had made purchases in Japan. While the antimony sold in Japan and in China may be alike (in fact most of it is of Chinese origin), the appraiser and the general appraiser are expressly prohibited by law from considering values in any market other than a principal market in the country whence the merchandise under consideration is imported. In this instance the importers were in a position to show, by consular inspection of the shipper's books, that the antimony had been sold at substantially the same price in China for home consumption at the time it was shipped as was declared upon entry. There was but one course open to the general appraiser—he sustained the invoiced and entered value, relieving the importer from all extra and penal duties.

The importer is not the only one who may file appeals from the findings of value as made by the local or general appraisers. Though the importer is usually the litigant, it is not an infrequent occurrence that the col-

lector has received information, usually after the appraiser has taken action, tending to prove that the invoice as passed by the appraiser understated the true cost or value. In such case he files an appeal for review by the general appraiser. As he is the litigant, and since the appraiser accepted the invoice as correct, the burden of proving otherwise devolves upon the collector. If the collector is dissatisfied with the decision of the single general appraiser, he may appeal for review to the board of three, whose decision is final.

*Collector also  
May Appeal*

While the importer is allowed ten days in which to file an appeal from the action of the local appraiser to a general appraiser, and then five days for appeal to the board of three, the collector is allowed sixty days for a first appeal and ten days for second or final appeal. Importers are required to pay a fee of \$1 with each appeal to reappraise-ment. The fee is refunded if the appeal is sustained, either in whole or in part.

Differences of opinion involving the administrative provisions of the tariff act may be settled by the Secretary of the Treasury, but are generally heard by the Board of General Appraisers on protest, and then if dissatisfied either party may appeal to the

*Administrative  
Questions under  
the Tariff Act*

United States Customs Court of Appeals, and in rare cases to the United States Supreme Court.

The most important issue of this nature which has arisen in recent years is now in litigation. It is caused by a provision inserted in the Tariff Act of 1913, which was intended to benefit owners of American vessels. There was a difference of opinion between the two Houses of Congress as to the operation of this provision of law, and a compromise was the outcome. This provision, which is brief and is worth reading, follows:

That a discount of 5 per centum on all duties imposed by this Act shall be allowed on such goods, wares and merchandise as shall be imported in vessels admitted to registration under the laws of the United States; provided, that nothing in this subsection shall be so construed as to abrogate or in any manner impair or affect the provisions of any treaty concluded between the United States and any foreign nation.

When this paragraph became law, it was evident to the government officials that to allow the discount of 5 per cent. would decrease the receipts at the custom-houses to a substantial extent. In view of this, it was decided that some means of making it ineffectual must be found. The law was ac-

cordingly construed in this way: If the discount were allowed only on goods imported in American vessels, such action on the part of our government would be interpreted by governments with which we had treaties containing "most favored nation clauses" as abrogating or impairing or affecting the provisions of the treaties; accordingly, if we conceded that the owners of foreign vessels protected by their governments' treaties could take advantage of this paragraph of the tariff law, clearly those importing goods in these vessels could have the same concessions as importers in American vessels. Not only would the government lose a large amount of money, but there would not be any great preference shown to shipments in American vessels.

Under this state of facts it was held by the Treasury Department, upon the advice of the Attorney General, that the proviso nullified the first part of the paragraph, and that the discount should not be allowed on goods imported in vessels of either class. From this ruling the importers appealed to the courts, and it has now been decided by the Board of General Appraisers, which allowed the importers' claim as to American vessels, and by the United States Court of Customs Appeals, which allowed the claims both as

to goods imported in American vessels and also in foreign vessels (at least, those registered under the laws of countries with which we have commercial treaties). The question is now pending in the Supreme Court of the United States on appeal filed by the government and its decision will be final and conclusive on the subject. It is estimated that the sum involved is considerably over ten million dollars.

## VIII

### Customs Frauds

**C**USTOMS frauds are chiefly of two kinds: smuggling and fraudulent undervaluation. The collector in matters of fraud upon the revenue is represented by a solicitor or a deputy collector of the law division. A decision to bring legal action having been reached—either criminal or civil—against the offenders, the matter is referred to the United States attorney in the particular district in which the fraud has been committed.

Smuggling may be committed by incoming tourists without a proper realization of the seriousness of the crime. If the customs officers are satisfied that failure to make proper declaration was with intent to defraud, they are required to seize the articles, and in their discretion may report the matter to the United States attorney for criminal action. The punishment on conviction is a fine of not more than \$5,000, or imprisonment for not more than two years, or both. *Smuggling*

Smuggling is not as prevalent at the present time as it was many years ago. The rate

of duty charged on diamonds and other precious stones is low, so that the risk of losing the goods does not pay for the small saving of duty. Many years ago it was discovered that some of the sailors on steamers from Havana were hiding large quantities of expensive cigars in the coal bunkers, or in some other secure place in the ship and when the vessel arrived at the end of her journey these cigars were encased in rubber bags, which were thrown overboard and taken out of the water by boats in waiting for them. In course of time, however, that scheme was exposed.

Importers condemn irregular practises, and in recent years there have been very few instances of systematic fraud upon the customs revenue by smuggling.

In cases where the appraiser, general appraiser or the Board of General Appraisers finds the value of an importation to be greater

*Undervaluation and  
False Invoicing*

than 75 per cent. in excess of the declared value and upon final appraisement the advance is sustained, the entry is presumptively fraudulent and the merchandise will be seized. In any legal proceeding other than a criminal prosecution, the undervaluation as shown by the appraisal is presumptive evidence of fraud, and the bur-



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### A SECTION OF THE SEIZURE ROOM

Showing packages of tobacco which had been found concealed in the coal bunkers.



den is upon the claimant to prove that it is not.

Penalties or forfeitures applicable to merchandise entered by a consular or certified invoice are alike applicable to merchandise entered by a pro forma or uncertified invoice.

If the owner, agent, seller, consignee, importer or other person makes (or attempts) entry at the custom-house with the aid of any false invoice, declaration, statement, affidavit or paper, with intent to defraud, he is upon conviction subject to a fine of a sum not exceeding \$5,000, or to imprisonment for not more than two years, or both. The merchandise or the value thereof to be recovered from such person will be forfeited and the forfeiture shall apply to the entire case or package (with its contents) which contained the article or articles with respect to which the fraud was perpetrated.

*Customs Entry by  
False Documents*

A false invoice is an invoice which, with intent to defraud the government and to evade the payment of proper revenue, misstates the transaction. The invoice may be false as to contents, in which event it will probably not disclose the complete contents of the cases or packages which it covers; or it may mis-state the nature of the contents, this

for the purpose of paying a lower rate of duty than the legal rate; or it may mis-state the true cost and value of the contents.

The failure to declare on the invoice all the merchandise contained in the package which the invoice covers is punishable by forfeiture, if in the judgment of the customs office the failure so to specify was with intent to defraud. Such action would be construed as an attempt to smuggle.

A general appraiser may summon before him by subpoena any importer, owner, consignee or other person, and examine such person upon any matter which he may consider material respecting any imported merchandise then under consideration, or any previously imported within one year. Should the owner, importer or consignee of any imported merchandise wilfully and corruptly swear falsely on examination before any general appraiser, or Board of General Appraisers, the merchandise shall be forfeited or the value thereof may be recovered by the government.

*Inspection of Importers' Books*      The collector is authorized to demand access to an importer's books or records of accounts pertaining to the value or classification of imported merchandise. The Secretary of the Treasury is authorized, in his discretion,

to assess additional duty of 15 per cent. on all the merchandise imported by any individual, firm or corporation that refuses to permit such examination—the extra duty being assessed only while such failure or refusal continues.

## IX

### Special Provisions Enforced by Law Division

**T**HERE are a number of limitations upon imports, and special requirements which must be observed by importers who would bring their merchandise in with the minimum of delay and friction. These provisions are enforced by the law division of the collector's office.

The law contains general regulations as to the marking of shipments for import. All articles of foreign manufacture or production, capable of being marked, stamped, branded or labeled without injury, must be clearly labeled to indicate the country of origin or production. Imported cutlery must, in addition, bear the name of the purchaser or maker. The cartons or boxes in which foreign merchandise is imported should show the quantities contained in each in order that the appraiser can the more readily verify the contents and check them up with the invoice.

Foreign merchandise is subject to the tax prescribed in the tariff law, even though it has previously paid duty. Therefore, if for-

eign merchandise which has paid duty is exported and reimported, it is again dutiable. There are some exceptions—household and personal effects, machinery *Reimportation* and other articles sent abroad for repair, in which cases duty will be assessed upon reimportation on the value of the repairs (provided the outward shipment was made under proper government supervision and control). Articles that were grown, manufactured or otherwise produced in the United States, which have been shipped abroad and returned in the identical condition as imported, may enter without the payment of duty. But if the article has increased in value or is improved in condition while in a foreign country, then duty will be assessed on the article as though it were in whole a foreign product.

An interesting provision recently inserted in the tariff acts is the one designated to give manufacturers of women's wearing apparel the benefit of importing model garments free of duty for purposes of copying. The law requires that garments imported under this provision be used for no purpose other than copying, and that they be exported within six months of their importation.

Machinery brought in for repairs, automobiles, motor cycles, air ships and aeroplanes, motor boats and similar vehicles and

crafts imported by non-residents for temporary use, such as touring or exhibition, as well as the samples of foreign commercial travelers, may be imported and remain here for six months without the payment of duty. These liberal provisions are a decided convenience and facilitate the increase of trade.

*Prohibited Importations* Certain articles of merchandise are specifically prohibited from coming into the United States, and importers who attempt to bring them in subject themselves to the penalties provided by the tariff laws.

*Opium and Cocaine* may not be imported except for medicinal purposes, and if found on board a vessel arriving in the United States and not manifested shall be declared forfeited.

*Plumage of Wild Birds.*—The importation of aigrettes, egret plumes, osprey and the feathers, heads, wings, skins or parts of skins of wild birds—unless imported for scientific or educational purposes—is prohibited. This applies alike to plumage brought into this country by the returning passenger, even though such plumage had previously been in the United States.

This prohibition was inserted in the Tariff Act of 1913 at the instigation of the Audubon Society, after much opposition on behalf of

milliners and others commercially interested in plumage. Its enforcement has developed some interesting points. Recently the collector was required to decide whether a club could import wild ducks for its dining service, since such ducks would have the skin, wings and feathers of wild birds. These cases are rare, and the customs officials exercise with wisdom their discretionary powers. In this instance they required that the feathers be returned to the custom-house for destruction, and generally assured themselves that the ducks were not imported for the purposes which the act intended to prohibit.

*Fur Seal Skins* and garments made thereof may not be imported unless the seals have been taken in certain waters specified in treaties with foreign powers. In purchasing seal skins abroad care should be exercised to select only those that may be imported, and a special consular certificate should be secured.

*Obscene and Immoral Articles* may not be imported, and if found in imported merchandise will be confiscated.

*Falsely Stamped or Marked Articles.*—Jewelry of gold or silver, or gold and silver wares marked so as to indicate a greater degree of fineness than the actual value, may not be imported.

*Trade-Marked Articles.*—Entry is prohibited of imported merchandise which shall copy or simulate the name of any domestic manufacture or manufacturer trade-marked in this country, or in any country granting similar privileges to citizens of the United States. Copyrighted articles are also accorded protection.

*Prize Fight Pictures*, photographs, films or other pictorial representation of prize fights or pugilistic encounters are, by special act of Congress, prohibited.

*Convict Labor Goods.*—Articles manufactured wholly or in part in foreign countries by convict labor are prohibited from importation. The Philippine Islands are not a foreign country within the meaning of this provision.

*Food and Drug Shipment.*—Special consular invoice forms are furnished by United States consuls for invoicing foodstuffs and drugs. In addition to the usual appraisal by the appraiser, food and drugs are examined at the port of entry by the Department of Agriculture; final delivery of the imported goods cannot be made or liquidation of the entry proceeded with until this department has certified that all the requirements of the pure food and drug law have been complied with.

*Tea.*—The importation of tea which, in purity, quality and fitness for consumption, is inferior to the standards fixed and established by the Secretary of the Treasury, is prohibited. The examination shall be made by examiners or boards of United States general appraisers in comparison with certain standard qualities, and shall be made in accordance with the usages of the tea trade. Teas which have been rejected as unfit for importation may be exported, and if not so exported will be condemned and destroyed under supervision of a customs officer.

*Animals.*—The Secretary of the Treasury is authorized to make such regulations as he may deem proper to prevent the introduction of and dissemination of any contagious, infectious or communicable diseases; and the collector of customs, in harmony with the Department of Agriculture, undertakes to assist in the enforcement of these regulations upon importation.

*Plants and Nursery Stock.*—The importation of plant and nursery stock is subject to the control and supervision of the Department of Agriculture.

*Matches.*—The importation of poisonous or yellow phosphorus matches is prohibited. Except in the case of matches imported from countries which prohibit the use of such

phosphorus in the manufacture of matches, special consular certificates are required upon the entry of all matches imported into the United States.

*Counterfeits of Coins or Securities.*—Imitations or counterfeits of foreign coins, securities or postage stamps, except they be illustrations of coins or medals to be used in numismatical or historical books, may not be imported into the United States.

## X

### Customs Brokers, Customs Attorneys and Bonded Warehouses

**A** CUSTOM-HOUSE broker is a clearing agent. He effects clearance through the custom-house of imported merchandise on behalf of other persons. He may also receive and forward goods, but when he acts in this capacity he does so as a forwarding agent, or as agent of the foreign shipping agent.

The custom-house broker should receive from the importer, or by his instructions, the invoice (consular, if one has been received) and the bill of lading.

Familiarity with the rates of duty prescribed in the law will

*How the  
Broker Proceeds*

suggest to him the appropriate tariff classification based on the invoice description of the merchandise. He calculates separately the quantity and value of each class of merchandise in the currency of the invoice, and reduces these calculations to terms of United States money in accordance with the rates as declared by the Treasury Department. All of this detail is listed on a customs entry sheet or blank furnished by the broker, the

form of which, for the sake of uniformity, is prescribed by Treasury regulations. This is done whether immediate clearance is required or whether goods are to be placed in a government warehouse.

After he has advised the importer of the amount of estimated duties, the broker receives and pays the duties, receiving from the collector the delivery order. He turns over the delivery order or permit to the importer or to his truckman. He gives attention to the examination and release of the goods selected for examination by the appraiser, attends to the final settlement of duties, and advises the importer in the event of delay and disputes. In short, the broker is the personal representative of the importer at the custom-house and the appraiser's warehouse, and is usually vested with full power to act for the importer as though such importer were present in person. Whenever the importer operates through a broker, all those matters which relate to the receiving and clearance of imported merchandise from customs, discussed in previous chapters as required of the importer, are attended to by the broker.

The custom-house broker, acting as forwarding agent, arranges for direct shipment from the pier of such cases, bales or other

packages as his client may desire shipped, thus saving a second handling. As agent for the foreign freight forwarder or on behalf of the consignee, he forwards in bond merchandise intended for shipment to an interior city or for export.

*The Broker as  
Forwarding Agent*

In making the shipment either by rail or water, according to instructions, the custom-house broker must necessarily be familiar with routes, freight rates, freight classifications and other shipping details. His trucks and lighters are bonded to the United States government, as only under such an arrangement can goods not yet cleared from customs be moved from steamer to bonded cars.

The work intrusted to the custom-house broker is of a confidential nature and is so regarded by him. Familiarity with a particular line of merchandise renders it possible to be of special service to his client. The fee paid the broker is in each separate instance a small one, ranging from \$3 to \$5 or thereabouts per shipment, and this generally without regard to the value of the importation.

Custom-house brokers are required to be licensed by the Secretary of the Treasury under special act of Congress, and such license will be revoked upon proof of fraudu-

lent practise or other misconduct prejudicial to the service.

Appeals from the decisions of customs officers, proceedings affecting the valuation or classification of imported merchandise and customs disputes in general  
*Customs Attorneys* have grown to be so highly technical that a class of lawyers has developed to handle these cases. They are generally attorneys who by training and practise have become experts on the subject. So far as the actual handling of appeals before the Board of General Appraisers is concerned, there is no act requiring that this be done by regularly admitted lawyers; nevertheless, the representatives who appear for importers are usually lawyers who have been admitted to practise in the courts of the state in which they reside and who specialize in customs procedure.

Until recently it was the custom to handle claims against the government with regard to alleged illegal exaction of duty upon a contingent fee, there being no charge to the importer unless a recovery was made. In 1913 Congress declared against this practise and embodied a provision in the law to the effect that an agreement for a contingent fee in respect to a recovery or refund under protest is illegal. Compliance with this pro-

vision is now a condition to the validity of the protest and to any refund thereunder, and a violation of this requirement is punishable by a fine not exceeding \$500, or imprisonment for not more than one year, or both.

Many claims suggested by customs attorneys are highly technical and would not occur to the importer—a misplaced comma, or semicolon, an error in phraseology is noticed by the lawyer trained in customs routine and may win a protest or appeal.

Customs attorneys are of assistance to importers and to domestic interests when Congress has before it the matter of revising the tariff. By reason of their familiarity with various paragraphs of the law and decisions of the general appraisers and customs courts, they are in a position to suggest phraseology of the new laws.

A bonded warehouse—with the exception of a single class—is a privately owned establishment suitable for the storage of imported merchandise or merchandise subject to internal *Bonded Warehouses* revenue tax, until such time as the duty or tax has been paid or the goods otherwise disposed of in accordance with the law. Such warehouse is under federal supervision and in charge of a customs officer (storekeeper).

The warehouse cannot be opened for the transaction of business unless the government's representative is present, and it must close each day when this official leaves.

Bonded warehouses are divided into eight classes, as follows:

*Class 1.* Warehouses owned or leased by the government for the examination or appraisal of imported goods, or for the storage of seized and unclaimed goods.

*Class 2.* Importers' private warehouses, bonded to the government and intended for the exclusive storage of imported merchandise owned by or consigned to the owner of the warehouse.

*Class 3.* Warehouses owned by individuals, firms or corporations engaged in the business of general storage of imported merchandise.

*Class 4.* Bonded yards and sheds. This class is similar to Class 3, but is intended for the storage of goods which are of such character as to render it necessary to have special storage facilities—such as horses, cattle or bulky machinery.

*Class 5.* Bins or parts of buildings or of elevators for the storage of grain.

*Class 6.* Warehouses for the manufacture (under government supervision) of articles intended solely for exportation, made in

whole or in part of imported materials or of materials subject to internal revenue tax; for the manufacture, either for domestic consumption or for exportation of cigars of tobacco imported from one country, also for the storage and cleaning of imported rice intended for exportation.

*Class 7.* Warehouses for smelting and refining imported ores and crude metals for exportation or for domestic consumption.

*Class 8.* Warehouses for the cleaning, repacking or otherwise changing without manufacturing the condition of Mexican pease, for export, without payment of duty. This class of warehouse has only recently been authorized to take care of the increasing business in Mexican pease.

The bonded warehouses with which the importing public are the more frequently brought in contact are Classes 3, 4, 5, 6 and 7.

Importers, particularly those importing staples, frequently find it expedient to purchase in advance of their actual requirements. Under these conditions they will, upon arrival of their shipments, place the goods, or a part of them, in government bonded warehouses, there to remain until they have sold the goods or are required to deliver them.

*General Storage  
Warehouses*

The kind of warehouse required in such cases is that described under Class 3, or, in specialized cases, Class 4.

The importer selects a bonded warehouse as he would select any other warehouse. The storage rates and the conditions affecting insurance are matters over which the government exercises no control provided the building is reasonably safe and sound, and a bond is given to the government in an amount satisfactory to the customs authorities. The importer, therefore, in selecting a warehouse, should consider storage rates, insurance, accessibility to the piers, accessibility to his own place of business. He should consider also whether the warehouse is suitable for the storage of the particular merchandise to be stored. Certain classes of goods require special accommodations; Sumatra and Havana tobaccos require moist temperature, while Turkish tobacco requires dry storage accommodation. Warehouses catering to the storage of silk yarns and raw silk also require special temperature.

Storage rates are usually quoted on a parcel, case, bale or measurement basis. Rates quoted 30/30 mean storage 30 cents per case per month, with labor in and out 30 cents per case. Merchandise in bonded warehouse may be examined under government super-

vision and can be sampled, but such samples should not exceed either in quantity or value 1 per cent. of each case or package. If the goods are subsequently exported from bond, duty must be paid on the samples previously drawn. Not infrequently large importers will contract with a warehouseman for a floor or two in his bonded warehouse, and it is not unusual for an importer to have 5,000 or even 10,000 cases of dry-goods or bales of tobacco in bond at one time. As the value and rate of duty is generally determined when goods were placed in bond, the duty can be paid and delivery secured with very little delay when the goods are wanted.

The warehouseman is responsible for the safekeeping of the goods stored in any bonded warehouse, the government being concerned solely for the security of the revenue. If goods are stolen while in a bonded warehouse, the customs authorities enforce collection of the duties thereon.

Goods in a bonded warehouse are not subject to levy, attachment or other processes of the state courts, and they are exempt from taxation under the general laws of the several states.

The warehouses described in Class 6 are somewhat similar to a "free port," such as the free port of Hamburg, Germany. Goods

may be sent to such a warehouse when and as imported. Such goods are under government supervision. They may be used for manufacture, but only in accordance with formulas known to the customs authorities. When the manufactured product is withdrawn for consumption, duty will be assessed on the goods in the condition in which they are withdrawn from government control. Withdrawal may be made for export, and in that event no duty is paid, but exportation must be made under the supervision of customs officers. The storage of goods in a bonded manufacturing warehouse, as also the manufacture and the disposition of the waste or by-product, is carefully supervised and accounted for by customs officers.

*Manufacturing  
Warehouses*

The plants of manufacturers engaged in the smelting or refining (or both) of ores and crude metals may be bonded to the United States government, and are then known as smelting and refining warehouses (Class 7).

*Smelting and  
Refining Warehouses*

Crude ores and antimonial metals can be transported to such bonded smelters, and duty will be assessed upon withdrawal of the product therefrom. In case the importations are sufficient to justify it, a government chemist will be stationed at the warehouse or works to assist in determin-

ing the duty based on proper chemical analysis. The expense of maintaining the chemist must be borne by the manufacturer. Lead and zinc and antimony-bearing ores are the principal ores smelted under this arrangement.

Merchandise not entered promptly upon arrival is sent to government warehouse termed "general order" warehouse (Class 1), and is sold if not entered within one year. For this class of storage the collector may also designate the general storage warehouse known as Class 3. Imported merchandise, duty unpaid and remaining longer than three years in a bonded warehouse (where it was placed at the importer's request), is considered as abandoned and will be sold at auction.

*Unclaimed and  
Abandoned  
Merchandise*

In either case, the proceeds of the sale are applied, first, toward the payment of the expenses of the sale, then toward the warehouse storage and labor charges, customs duties and charges, and freights, in the order named. The balance of the proceeds is then payable to the owner of the merchandise or to his duly authorized agent.

### SUGGESTIONS AS TO FURTHER READING

The student interested in the statistics of our import trade will find the government publications, especially *Commerce and Navigation*, very valuable. Information regarding conditions in special import lines can usually be found in the respective trade journals, for instance the *Lace and Embroidery Review*, *Upholstery Journal*, *Dry Goods Economist*, *Silk Journal*, *Dundee Prices Current*, *The Iron Age*, *The Druggist Circular*, and numerous similar publications.

Further reading regarding the customs would include the United States Customs Tariff Act, the one in force at the time of writing being known as the Act of October 3, 1913. From time to time the customs regulations are published and should have the attention of anyone wishing to make a closer study of the requirements. The present regulations are known as *Customs Regulations of 1915*. In addition the weekly *Treasury Decisions* contain the decisions of the Board of General Appraisers, the Customs Court, United States Supreme Court (in customs matters), and the Treasury Department.

## QUIZ QUESTIONS

## I

1. How does our import trade compare with our export trade? State figures and percentages.
2. What are the two major classes of imports? How are staples subdivided?
3. What difference exists in the methods of purchase of the two major classes?
4. What are the sources and volume of our wool imports?
5. What country supplies most of our imported sugar? Outline the method of purchase, showing how money is advanced against the expected crop, who the buyers are in the United States, and how shipments are financed.
6. What is the chief peculiarity of the chemical trade?
7. How are hides sold by the foreign seller, and what is the customary method of drawing on the purchaser?
8. Name the main sources of hemp and other fibers; of crude ore and metals.
9. What are the two principal kinds of crude rubber, and what countries supply the major part of the world's demand?

## II

10. Name the four classes of importers, outlining in a general way the activities of each class.
11. Mention the five methods of importing.
12. What is the main advantage of dealing through foreign representatives?
13. What are some of the activities of the buyer who visits foreign markets? What is the "house workers" industry?
14. Enumerate the three principal forms of representation maintained in the United States by foreign manufacturers, and outline the methods of buying through each.
15. What are the three principal services performed by the commissionaire in assisting the American importer?

## III

16. Mention eight factors that must be kept in mind in calculating costs on imported goods.

17. How should the expenses of the buyer abroad be distributed when figuring costs?

18. What is an "import order," and subject to what conditions is it usually taken?

19. What two marks on cases will assist the importer in handling goods at pier and in determining shortage?

20. Give examples of the two kinds of discounts.

21. Explain the terms: "F. O. B. Hamburg," "loco factory."

22. What are the entries that must be made on the United States consular invoice? In what currency should it be made out if it represents goods sold; if it represents goods shipped to an agent for joint account or account of the foreign shipper?

## IV

23. Over what trade does the Customs Service have jurisdiction? Mention ten functions of the Service.

24. Under what customs collection district does your town or city come?

25. What position does the collector of customs hold at the port to which he has been appointed; what are his duties?

26. What is the duty of the naval officers in the Customs Service; where are these officers located?

27. Whose duty is it to visit arriving vessels; to examine imported merchandise; to superintend the lading for exportation of goods entered for benefit of drawback; to report the foreign value of imported goods?

28. Outline the main duties of the Board of General Appraisers. How many invoices does the board pass on during a year? What are the services of the special agents?

## V

29. Outline the procedure of entering and inspecting a vessel arriving at a port.

30. What papers are essential for the clearance of merchandise? How is clearance effected?

31. What regulations govern the importing of goods in bond? Explain how goods are shipped in bonded cars.

32. What moneys are receivable for duties? What limit is placed on the amount of silver and other coins that may be received in any one payment?

33. Where are the statistics of imports prepared?

## VI

34. What are the steps in examining an import shipment? State the work performed by the appraiser.

35. How does the appraiser determine value? Mention three methods.

36. How should price be stated for goods contracted for in an advancing market; goods purchased at retail?

37. Mention the three kinds of adjustments or liquidations of duties. Outline the process by which such liquidation is made.

38. When the appraised value exceeds the entered value what additional duties are added? Give an example of this.

## VII

39. Define "specific" rates, "ad valorem" rates and "compound" rates.

40. What is a "protest"; when can it be filed, and what fee is charged?

41. If a test case has been won, can an importer with interests identical with those of the man in whose favor the case has been won get relief without filing protest?

42. Outline the facts and state the decision in the "Hat Material Case."

43. Give an example showing why and how an importer should safeguard himself against possible changes in tariff schedules or in interpretation of existing laws and regulations.

44. Draw up an outline detailing the steps in a re-appraisement case.

## VIII

45. When is an entry presumed to be fraudulent?
46. What penalty is prescribed for customs entry by false document?
47. What is a "false invoice"? What rights has the collector in examining the books of an importer, and what authority has the Secretary of the Treasury in case of refusal to permit such examination?

## IX

48. What provisions govern reimportation of foreign goods into the United States?
49. Enumerate the 14 classes of prohibited importations.
50. Name at least three of the classes that are paralleled by similar laws in foreign countries, as mentioned in previous units of the Course.

## X

51. Outline the procedure of a custom-house broker in effecting clearance for the importer.
52. What is a customs attorney? May a claim against the government with regard to alleged illegal exaction of duty be handled by an attorney upon a contingent fee?
53. Specify the eight classes of bonded warehouses.
54. What do we have in the United States corresponding to a "free port"?





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